Memorandum

MIAMI-DADE COUNTY

Date: November 30, 2004

Agenda Item No. 7(A)(1)(G)

To: Hon. Chairperson Barbara Carey-Shuler, Ed. D. and Members, Board of County Commissioners

From: George M. Burgess
County Manager

Subject: Award Recommendation, ITB Prepaid Phone Card Vending Machines
ITB No. MDAD0003

RECOMMENDATION

The attached contract award recommendation between Latin American Enterprises, Inc. and Miami-Dade County has been prepared by the Miami-Dade Aviation Department (MDAD) and is recommended for approval. It is further recommended that the Board authorize the County Manager or his designee to execute said agreement for and on behalf of the County, and to exercise any cancellation provisions therein. It is further recommended that the Board waive the requirements of Resolution No. R-377-04 pertaining to the effective date of an agreement.

BACKGROUND

The Aviation Department advertised an Invitation for Bid (ITB) to solicit bids for Prepaid Phone Card Vending machines and six (6) bidders responded to the County's public advertisement. One of the six (6) firms was found non-responsive by the County Attorney's Office because the firm proposed to meet the DBE goal by being a qualified DBE but was not DBE certified at the time of submitting its bid and was subsequently denied certification. The bids for the five (5) remaining responsive/responsible bidders were opened and read aloud at a publicly advertised meeting.

The bids for a Minimum Annual Guarantee for the five (5) bidders were as follows:

1. WTN/Blackstar/CKOR Vending Joint Venture: $1,089,312.00

2. Latin American Enterprises, Inc.: $1,081,495.00

3. Communitel, Inc.: $1,080,009.00

4. Travelex Currency Services, Inc.: $701,000

5. Datawave Services, Inc.: $300,000 with annual increase by percentage equal to the Consumer Price Index and a payment of $50,000 payable upon execution of the agreement.

The County Manager's recommendation to award the agreement to WTN, the highest bidder, was placed on the January 21, 2003 Board agenda but was later withdrawn as a result of a protest being filed by Latin American Enterprises, Inc. and Communitel, Inc. A protest hearing was held, and the Hearing Examiner subsequently recommended that the recommendation of the County Manager stand. Prior to the protest, WTN, as the highest bidder, expressed reservations about executing the agreement at the amount, which it bid, citing increased competition from discounted payphones installed in the MIA terminal. After expressing such reservations, WTN participated in the bid protest hearing and defended the recommendation to award the agreement to WTN in accordance with its bid. The award recommendation for WTN was then placed on the Board agenda for July 8, 2003. However, Communitel, Inc. filed a bid protest in connection with this award recommendation. After considerable discussion by the Board, a motion to waive the bid protest procedures and proceed with consideration of the County Manager's award recommendation failed. Therefore, pursuant to the bid protest procedures, a Hearing Examiner had to consider the protest filed by Communitel, Inc.

A second protest hearing was then scheduled for July 24, 2003. During the protest hearing, the Hearing Examiner ruled that the Aviation Department could not proceed until a new recommendation was filed with the Clerk of the Board. The Hearing Examiner found that WTN/Blackstar/CKOR Vending Joint Venture's award recommendation was null and void due to their rejection as a responsible bidder as a result of their failure to execute an agreement with the County.

A recommendation to award the agreement to Latin American Enterprises, Inc. was filed on August 19, 2003. A protest was filed by Communitel, Inc. and heard by the Hearing Examiner on September 22, 2003. The Hearing Examiner stated "Therefore, it is the recommendation of the undersigned that the County Manager's recommendation of award to LAE be upheld and accepted by the Commission, provided that there is no evidence to the contrary in the Inspector General audit/report."

On December 10, 2003, the Office of Inspector General ("OIG") issued a report (see the attached report) on the Prepaid Phone Card Vending Permits at MIA, and the current Invitation to Bid for Non – Exclusive Prepaid Phone Card Vending Machines at MIA as requested by the Hearing Examiner on September 22, 2003. This audit report referenced the OIG's report of August 15, 2001, and their supplemental report dated January 28, 2002 both of which addressed the same matter. The OIG stated that:

> "the OIG does not feel that the same imperative need for an independent audit exists today against the backdrop of an impending recommended contract award. Absent any credible allegation of underreporting of revenues or identified lack of internal control, which may directly affect the accuracy of reported gross revenues, the time and expense to conduct such a historical audit is outweighed by the lack of beneficial information that it could produce. At best, it could provide insight of better management practices to be implemented in the future. However, the current proposed agreement incorporates practically all of the OIG's previous recommendations from the first report and addresses the findings made in our supplemental report of January 2002."

In conclusion, the OIG recommended to proceed with the execution of a new agreement and added that they will monitor the new agreement for compliance throughout the term of the agreement. They also concurred with the Hearing Examiner's recommendation to proceed with the award to Latin American Enterprises, Inc.

The award recommendation was then placed on the Board agenda for December 16, 2003, and, during this meeting, the Board deferred the item until the Audit and Management Services Department could conduct an audit. The Audit and Management Services Department conducted the audit, and a draft report was sent to the bidders. Comments to the report were received from Communitel and WTN. Latin American Enterprises did not have any comments. The final report was dated August 10, 2004 (see the attached report); the bidders were also copied on this report. Although the final audit report dated August 10, 2004 stated that the top three bids were unreasonable and unattainable because of declining revenues and a very competitive market, they also recommended that MDAD assess the reasonableness of these bids. The audit report stated that if MDAD finds that these bids are unrealistic, then the top three bids should be eliminated and suggested that the process continue with the third, fourth, and fifth ranked bidders accordingly, until successful execution is achieved. The audit report also stated that if MDAD decides to move forward, that they do so without modifying the bidder's proposal.

Upon consideration, MDAD is recommending award of the Prepaid Phone Card Vending Machines agreement to the firm of Latin American Enterprises, Inc. I concur and adopt this recommendation. If an agreement cannot be executed by the Board with Latin American Enterprises, Inc., then as recommended in the audit report, we request authorization to proceed with the next highest ranked responsive/responsible bidders until the agreement is executed.

PROJECT:	ITB Prepaid Phone Card Vending Machines
PROJECT NO.:	MDAD0003
PROJECT LOCATION:	Miami International Airport
DESCRIPTION OF PROJECT:	The County advertised an Invitation to Bid for one (1) qualified firm or individual(s) for the installation, operation and maintenance of prepaid phone card vending machines located at Miami International Airport. The successful bidder shall operate thirty-seven (37) prepaid phone card vending machines at various locations in Miami International Airport.
RECOMMENDED FIRM FOR THIS AWARD:	Latin American Enterprises, Inc.
LOCATION OF FIRM:	Hialeah, Florida

TERM OF AGREEMENT:	Two years
OPTION(S) TO RENEW:	Two one-year options to renew
RECOMMENDED AGREEMENT MEASURES:	RC review not required, DBE goal of 21% applied
ADVERTISEMENT DATE:	June 6, 2002
LIVING WAGE:	Not Applicable
AMOUNT OF RECOMMENDED AGREEMENT:	The bid is, $1,081,495 Minimum Annual Guarantee. (MAG). In addition, the firm shall pay the County 25% of the monthly gross revenue, which exceeds the Minimum Annual Guarantee.
HOW LONG IN BUSINESS:	Eleven (11) years
COMPANY PRINCIPALS:	Juan Jose Pino
PREVIOUS AGREEMENT(S) WITH THE COUNTY:	One (1) Agreement

DISCLOSURE INFORMATION FOR THE REMAINING THREE FIRMS

FIRM:	Communitel, Inc.
LOCATION OF FIRM:	Miami-Dade County
HOW LONG IN BUSINESS:	Six and a half (6 1/2) years + five (5) years under the name of Quick Packing, Inc.
COMPANY PRINCIPALS:	Pedro R. Pelaez Robert J. McWilliams
PREVIOUS AGREEMENT(S) WITH THE COUNTY:	Two (2) Agreements totaling $1,803,683

FIRM: Travelex Currency Services Inc.

LOCATION OF FIRM: Garden City, NY

HOW LONG IN BUSINESS: Twenty (20) years

COMPANY PRINCIPALS:
Anthony R. Horne
Michael Brandt
Thomas Tucker
Michael Ambrose

PREVIOUS AGREEMENT(S) WITH THE COUNTY: None

FIRM: DataWave Services (US) Inc.

LOCATION OF FIRM: Pompton Plains, New Jersey

HOW LONG IN BUSINESS: Eight (8) years

COMPANY PRINCIPALS:
Pierre Saez
Joshua Emanuel
Ronald Bozek
Mark Belsky
Dave Knox
John Gunn

PREVIOUS AGREEMENT(S) WITH THE COUNTY: None

Assistant County Manager

MEMORANDUM

(Revised)

TO: Hon. Chairperson Barbara Carey-Shuler, Ed.D. and Members, Board of County Commissioners

DATE: November 30, 2004

FROM: Robert A. Ginsburg
County Attorney

SUBJECT: Agenda Item No. 7(A)(1)(G)

Please note any items checked.

_______	**"4-Day Rule" ("3-Day Rule" for committees) applicable if raised**
_______	**6 weeks required between first reading and public hearing**
_______	**4 weeks notification to municipal officials required prior to public hearing**
_______	**Decreases revenues or increases expenditures without balancing budget**
_______	**Budget required**
_______	**Statement of fiscal impact required**
_______	**Bid waiver requiring County Manager's written recommendation**
_______	**Ordinance creating a new board requires detailed County Manager's report for public hearing**
_______	**Housekeeping item (no policy decision required)**
✓	**No committee review**

Approved	Mayor	Agenda Item No.	7(A)(1)(G)
Veto		11-30-04	
Override			

RESOLUTION NO. ________

RESOLUTION AWARDING PREPAID PHONE CARD VENDING MACHINES CONTRACT TO LATIN AMERICAN ENTERPRISES, INC.; AT MIAMI INTERNATIONAL AIRPORT, ITB NO. MDAD0003; AUTHORIZING COUNTY MANAGER OR DESIGNEE TO EXECUTE AGREEMENT AND TERMINATION PROVISIONS CONTAINED THEREIN; WAIVING REQUIREMENTS OF RESOLUTION NO. R-377-04

WHEREAS, the Board desires to accomplish the purposes outlined in the accompanying memorandum, a copy of which is incorporated herein by reference,

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COUNTY COMMISSIONERS OF MIAMI-DADE COUNTY, FLORIDA, that this Board hereby awards the Prepaid Phone Card Vending Machines Contract to Latin American Enterprises, Inc. at Miami-International Airport, ITB No. MDAD0003, for the installation, operation and maintenance of the prepaid phone vending machines located in Miami International Airport, for a two (2) year term, with two (2) one-year options to renew, for a minimum annual guarantee of $1,089,312.00, as set forth in the attached memorandum from the County Manager; this Board authorizes the County Manager or designee to execute the Agreement between Miami-Dade County and WTN/Blackstar/CKOR Vending Joint Venture, in substantially the form attached hereto and made a part hereof, subject to execution by WTN/Blackstar/CKOR Vending Joint Venture and after review by the County Attorney's Office; and to exercise the termination provisions contained therein. Upon the recommendation in writing of the County Manager, the requirements of Resolution No. R-377-04 are hereby waived.

The foregoing resolution was offered by Commissioner , who moved its adoption. The motion was seconded by , and upon being put to a vote, the vote was as follows:

Dr. Barbara Carey-Shuler, Chairperson
Katy Sorenson, Vice-Chairperson

Bruno A. Barreiro	Jose "Pepe" Diaz
Carlos A. Gimenez	Sally A. Heyman
Barbara J. Jordan	Joe A. Martinez
Dennis C. Moss	Dorrin D. Rolle
Natacha Seijas	Rebeca Sosa
Sen. Javier D. Souto	

The Chairperson thereupon declared the resolution duly passed and adopted this 30th day of November, 2004. This Resolution and contract, if not vetoed, shall become effective in accordance with Resolution No. R-377-04.

MIAMI-DADE COUNTY, FLORIDA
BY ITS BOARD OF
COUNTY COMMISSIONERS

HARVEY RUVIN, CLERK

By:______________________
Deputy Clerk

Approved by County Attorney as
to form and legal sufficiency. RW

Roy Wood

107.07-17A METRO-DADE/GSA-MAT MGT

MEMORANDUM

TO: Delmar Whittington
Manager, Contracts Administration

DATE: August 16, 2002

FROM: Abigail Price-Williams
Assistant County Attorney

SUBJECT: ITB- MIA Prepaid Phone Card Vending Machines Project No. MDAD-0003 Responsiveness of Respondents

You have asked whether the six (6) bidders to the Invitation to Bid (ITB) for MIA Prepaid Phone Card Vending Machines, Project No. MDAD-0003 are responsive. The bidders are as follows: Communitel, Inc., Travelex Currency Services, Inc., Lionhart of Miami, Inc. d/b/a Astral Communications, Latin American Enterprises, Inc., DataWave Services (US) Inc., WTN/Blackstar/CKOR Vending. In the Bid Inventory Matrix you have identified defects in the submittals of Lionhart of Miami, Inc., and WTN/ Blackstar/CKOR Vending. Lionhart is non-responsive. The other five (5) bidders are responsive.

Lionhart intended to meet the DBE goal requirement as a DBE itself but failed to become DBE certified prior to submitting its bid. Lionhart's application for certification has since been considered by DBD and denied. Lionhart is therefore non-responsive.

The bid analysis notes that bidder, WTN/Blackstar/CKOR Vending, a joint venture, failed to submit a Schedule of Participation ("SOP"). The ITB provides at page IB-29 that each bidder must submit with its bid, a plan for achievement of the goal, including a schedule of participation ("SOP") and a Letter of Intent from certified DBE's. Although the SOP form was not submitted with the bid, review of the proposal reveals that the information and commitment required by SOP is provided in the documents submitted, including the letter of intent submitted with the bid, the joint venture agreement, and the Minimum Qualifications and Questionnaire form. WTN/Blackstar/CKOR Vending is therefore responsive.

02 AUG 22 AM 8:44

c. Bobbie Phillips
Ana Maria Saks
Mayra Bustamante
Lenora Allen-Johnson
Marie Clark-Vincent ✓

Memorandum

TO: Honorable Chairperson Barbara Carey-Shuler, Ed.D. and Members, Board of County Commissioners

DATE: December 11, 2003

FROM: George M. Burgess
County Manager

SUBJECT: Audit Reports
ITB Prepaid Phone
Card Permit Holders

Attached to this memorandum are the following special audit reports, prepared and attested to by independent certified public accountants as to the correct gross revenues paid to the Miami-Dade Aviation Department:

- Communitel, Inc. – Year ended August 31, 2002.
- Latin American Enterprises, Inc. – November 1, 2001 through October 31, 2002 and November 1, 2002 through April 21, 2003; and
- WTN, Inc. – Year ended October 31, 2002.

Each Permit Holder compensates the Aviation Department for the privilege of doing business at Miami International Airport (MIA) by paying a minimum annual guarantee, plus a percentage of all gross revenues (excluding sales tax) greater than the minimum annual guarantee. Beginning April 22, 2003, the percentage fee was 25%; in the previous year it was 15%.

Permit Holders report gross revenues and the corresponding fees monthly, and remit amounts due to the Aviation Department. The accuracy of these monthly reports must be certified by a corporate officer or other authorized representative of the Permit Holder. At year end, the entire year's gross revenues earned at MIA and fees paid are audited in accordance with the American Institute of Certified Public Accountants' requirements for special reports.

To be considered certified, all types of financial audits must be conducted in accordance with American Institute of Certified Public Accountants requirements and performed by a Certified Public Accountant. The special reports required of Permit Holders audit only those items and the related internal controls which pertain to the propriety and accuracy of gross revenues reported and fees paid to the Aviation Department. No other financial elements need be examined because only gross revenues generated at MIA affect monies paid to the Aviation Department.

Biscayne Building
19 West Flagler Street, Suite 220
Miami, FL 33130
Phone (305) 375-1946
Fax (305) 579-2656
www.MiamiDadeIG.org

Office of the Inspector General

Miami-Dade County

Memorandum

To: Honorable Alex Penelas, Mayor

Honorable Chairperson, Barbara Carey-Shuler, Ed.D
and Members, Board of County Commissioners

From: Christopher Mazzella
Inspector General

Date: December 10, 2003

Re: Updated Review of Prepaid Phone Card Vending Permits at Miami International Airport (MIA) and Review of the Current Invitation to Bid for Non-exclusive Prepaid Phone Card Vending Machines at Miami International Airport

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By way of background, on July 8, 2003, Agenda Item 7A1E[1], a recommendation to award the above-captioned contract, was presented to the Board of County Commissioners (BCC) for approval. A bid protest of the presented recommendation for award was pending, and thus, the agenda item also contained a clause seeking approval to waive further bid protest procedures by a two-thirds vote of the commissioners present.

By way of Supplemental Agenda Item 7A1E, the BCC was also presented with copies of the OIG's previous final report, dated August 15, 2001, regarding the limited test permits for prepaid phone card vending, the Miami-Dade Aviation Department's response to the draft version of that same report and the OIG's supplemental report, dated January 28, 2002, on the same matter. The cover memo for the Supplemental Agenda Item contained a breakdown of the gross reported revenues of the three current permittees. The three current permittees are also the first, second and third ranked bidders by price in the invitation to bid for the contract destined to replace the current permits.

[1] The agenda item sought BCC approval, in essence, to award the prepaid phone card contract to the highest bidder (first ranked as it is a revenue generating contract to the County) and set forth a three working day deadline for that vendor to execute the contract. Should the highest bidder fail to execute the contract within the established time period, the contract would then be presented to the next vendor in line with the same time deadlines for contract execution.

The BCC did not pass by two-thirds vote the portion of the resolution seeking to set aside the current bid protest process, and thus the recommendation to award was not deliberated upon. There was, however, a brief discussion of the OIG's previous findings and recommendations, and it was asked that the OIG provide the BCC with an updated review of this matter. This memorandum seeks to provide such an update.

Attached, as Schedule A, is a spreadsheet containing the OIG's findings and recommendations from its previous two reports and MDAD's responses. In the far right column of the spreadsheet are comments as to the current state of affairs and how the current proposed contract provisions further address the issue.

The remainder of this memorandum identifies several areas that may be of interest to this Board.

CALLS FOR AUDITS

In its draft phone card report dated August 2, 2001, provided to MDAD for comment, the OIG recommended that MDAD conduct an audit of the three phone card vendors providing prepaid phone cards at MIA. MDAD disagreed with this recommendation stating:

> "As a matter of procedure, and within the Terms and Conditions of the existing Permit document, the year-end audit will continue to be performed. The firms have submitted annual audits to the Department in accordance with the requirements of the Permit."

In light of the Department's response that stressed its need for flexibility in the execution and performance under the test permits, the OIG's final report dated August 15, 2001 reiterated the audit recommendation. The OIG was concerned over the lack of documentation regarding the number and placement of the machines and overall controls regulating the introduction of machines on the airport premises.[2]

[2] A MDAD letter to one of the permittees, dated July 9, 2001, states: "The Department's records do not reflect authorization to increase the total number of devices from 22 in 1999 to 31 in 2001. Kindly provide this office with documentation to that effect or [indicate] which 9 devices you will eliminate..." A MDAD internal hand written note clipped to the letter acknowledges this ongoing dilemma regarding the department's management, or lack of management, over the prepaid phone cards. It reads: "In response to your question about how many [devices] are authorized? For the 2 years that I have been with this group, we have been reluctant to determine exactly what # of prepaid phone cards should be at MIA. This reluctance is what has caused the exponential growth of the devices. I am preparing less locations with the help of facilities to be approved by A.G and incorporated into their permit. Even before they requested permission from Angela, Communitel increase[d] the number of machines, disregarding Department approval. We should consider reducing the uncontrollable amount of these devices that today clutter our building."

At the BCC hearing of July 8, 2003, it was suggested that the OIG conduct an audit of the fees reported by the vendors to MDAD under the terms of their permits. It was also questioned why the company that had generated the most revenue in the last few years was not being recommended for award of this contract, thus reinforcing the call to conduct an audit. The OIG has thoroughly reviewed this proposed task and respectfully disagrees with the suggestion to conduct an audit of the present permittees for the reasons discussed below.

First, the original recommendation for an audit was primarily based on the lack of documentation governing the number and placement of the machines at MIA. The original report noted no correlation to the number of machines scattered throughout the terminal to documentation in the file authorizing their placement. The accurate reporting of gross revenues is tied to actual number of devices in operation at any given time. **To conduct this audit, as a baseline, one would need to know the actual number of machines (as opposed to reported number of machines) in operation at a given time. Given the history of poor record keeping by the Department and the unauthorized increase of machines by the permittees, an audit by the OIG to provide assurances of correct gross revenues exceeding those certified by the Certified Public Accountant would be an impracticable task.**

The OIG does note that since its original report, the documentation in the file has significantly improved, and under the current permits the number and placement of the machines is better regulated by the Department. Additionally, gross revenues are directly tied to the number of cards dispensed by each vendor, and the dollar value of the phone card itself, e.g. $10 or $20 prepaid phone card. The OIG's review of the vendors' monthly revenue reports reveals that there is no uniformity in the manner in which the vendors report their grossly monthly revenues. For example, one vendor's report breaks down the number of phone cards dispensed by each machine for each day of the month and by the face dollar value of the phone card. The two other vendors only state the gross revenue collected by each machine for the entire month, without specificity to the value of the cards dispensed, e.g., X number of $10 cards and X number of $20 cards. This type of information is extremely beneficial for reporting purposes, but was not required as part of the monthly report under the permits. The Department should consider requiring the reporting of this type of specific information.

In line with this type of reporting, the OIG also included in its original set of recommendations that MDAD require each device to be equipped with an activity register, which would record the amount of services rendered by each machine. This type of activity register could then be produced for inspection to spot check the reported amount of services rendered by each machine to the reported amount by the vendor in its monthly gross revenue report. An activity register would significantly facilitate the ease of conducting random spot revenue audits to ensure accurate reporting. MDAD responded positively to this recommendation and a review of the currently proposed contract provisions does contain this requirement.[3]

As for the actual reporting of monthly gross revenues and the required submission of an annual audit under the current permits, the OIG notes the requirement of a certification by a Certified Public Accountant as to the correct gross revenues per month and for the year under audit. Each of the vendor's annual audits submitted to the County contained a certification stating:

> "We conducted an audit in accordance with generally acceptable auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Gross Revenues and Percentage Fees Paid to the County is free of material misstatement. ***An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the schedule.*** An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion." (Emphasis added.)

The OIG recognizes that the testing conducted under these audits may only be of a sample of all transactions. However, under the auditing standards, the sample being tested must be of quantity and quality sufficient for the Certified Public Accountant to render a professional opinion that the Schedule of Gross Revenues presents fairly, in all material respects, the gross revenues of the vendor. While the Department could have conducted its own audit, or may have reviewed the work papers of the Certified Public Account in lieu of conducting its own audit, it did not.

The OIG's recommendation is from over two years and two permits ago.[4] After a thorough assessment of the matter, the OIG does not feel that the same imperative need for an

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[3] See Article 3.14 Additional Reports of the proposed agreement, which states in full: "The Successful Bidder will be required to provide electronic record of all transactions by location, by machine, for accounting and auditing purposes. The Prepaid Phone Card Vending Machines must generate printed revenue reports as requested by the Department. The manufacturer of the vending machines must provide a certificate verifying that the revenue mechanism creating the reports is tamperproof. Any evidence of tampering may lead to termination of the Agreement. Only a certified company technician may have access to the accounting system and must notify the Department before servicing or repairing any part of the machine that produces access to the accounting system. ***A copy of the transaction report or similar information will need to be submitted with the concessionaires' monthly payment for verification.*** The Department will have the right to inspect the prepaid phone card vending system and to audit the concessionaire at any time." (Emphasis added.)

independent audit exists today against the backdrop of an impending recommended contract award. Absent any credible allegation of underreporting of revenues or identified lack of internal control, which may directly affect the accuracy of reported gross revenues, the time and expense to conduct such a historical audit is outweighed by the lack of beneficial information that it could produce. At best, it could provide insight of better management practices to be implemented in the future. However, the current proposed Agreement incorporates practically all of the OIG's previous recommendations from the first report and addresses the findings made in our supplemental report of January 2002. (See attached Schedule A.) For example, the machines under the new Agreement are required to have printable activity registers, as discussed above. Furthermore, the new Certified Public Accountant's annual audit must also contain two additional certifications not required under the current permits. These two additional certifications relate to material weaknesses of the internal control structure[5] and compliance with the term of the Lease and Concession Agreement.[6] The OIG believes these two additional annual certification requirements combined with required submission of the printed monthly activity register with the monthly schedule of gross revenues, provide heightened assurances to the County that the vendor's operations are in compliance with the terms of the Agreement.

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[4] The permits under review in the OIG's original report were, PX 500, PX 506 and PX 507. They have since been replaced with permits PXs 828, 829 and 830, which were again replaced with the current set of permits PXs 889, 890 and 891.

[5] See Exhibit G, page 1 of 4 of the Form of Lease & Concession Agreement for the Prepaid Phone Card Vending Machines, which states in part: "We considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the Schedule of Gross Revenues and Percentage Fees Paid to the County and not to provide assurance on the internal control structure. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level of risk that errors or irregularities in amounts that would be material in relation to the Schedule of Gross Revenues and Percentage Fees Paid to the County being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above." See also Article 3.11 of the Agreement, which requires in part: "The report shall also be accompanied by a management letter, which will contain the findings discovered during the course of the examination, such as recommendations to improve accounting procedures, revenue and internal controls, as well as significant matters under the Agreement."

[6] See Exhibit G, page 3 of 4 of the Form of Lease & Concession Agreement for the Prepaid Phone Card Vending Machines, which states in part: "In connection with our audit, nothing came to our attention that caused us to believe that XYZ Corporation failed to comply with the term of the Lease and Concession Agreement with Miami-Dade County, Florida, insofar as they relate to the Company's books of accounts and reports. However, out audit was not directed primarily toward obtaining knowledge of such non-compliance."

Most importantly, the suggestion to audit the current permittees does not advance the current recommendation to award this contract. The revenues to the County to be generated by the new Agreement are based on the tendered minimum annual guaranteed fees proposed by each bidding vendor in response to the County's Invitation to Bid (ITB) in addition to a percentage of gross revenues exceeding the minimum guaranteed amount. The ITB process also sets objective standards of minimum qualifications, which must be met by each bidder prior to the revealing of that bidder's bid amount. The ITB also lends itself to maximize the County's potential for revenue generation by, in effect, declaring that the highest bid wins. Past performance, gauged by earnings and revenues generated under the previous or current MIA permits or under operation at any airport of other venue, is not a factor under the ITB, nor should it be. How well a vendor performed under a different set of circumstances, e.g. number and placement of machines, direct competition among other prepaid phone card machine vendors and operational venue, such an airport, seaport or shopping mall, should not be used as barometer to measure the vendor's potential gross revenues under the terms of the new Agreement.

ANNUAL AUDITS SUBMITTED BY THE THREE CURRENT PERMITTEES

The OIG reviewed the annual audits submitted by the three permittees in accordance with their permits. For WTN, the OIG reviewed reports covering 38 consecutive months of operation from September 1999 to October 2002. No exceptions were noted by the Certified Public Accountant, and for all 38 months the Certified Public Accountant opined that the schedule of gross revenue presented fairly, in all material respects, the gross revenue of WTN for the period being audited.

For Communitel, the OIG reviewed reports covering 48 consecutive months of operation from September 1998 to August 2002. No exceptions were noted by the Certified Public Accountant, and for all 48 months the Certified Public Accountant opined that the schedule of gross revenue presented fairly, in all material respects, the gross revenue of Communitel for the period being audited.[7]

For Latin American Enterprise, Inc. (LAE), the OIG reviewed reports covering 62 consecutive months of operation from July 1998 to April 21, 2003.[8] No exceptions were noted by the Certified Public Accountant, and for all 62 months the Certified Public Accountant opined that the schedule of gross revenue presented fairly, in all material respects, the gross revenue of LAE for the period being audited.

For both Communitel and LAE, the OIG found that both had been delinquent in submitting their annual audits to MDAD. On August 4, 2003, MDAD sent two letters to both

[7] Communitel's CPA did note an overpayment of $1,044 for the period ending August 2002.

[8] Last date of permit. A new permit including a minimum annual guarantee became effective April 22, 2003.

Communitel and LAE advising them that they had failed to submit their last year's audit for the year ending October 31, 2002, and an audit for the period November 2002 through April 21, 2003. MDAD received Communitel's delinquent report for the year ending August 13, 2002 on September 12, 2003. Communitel advised that it would provide the next full year's audit (September 2002 through August 2003) to MDAD by November 15, 2003. At present, the OIG has not been able to confirm the receipt of this pending annual audit. MDAD received LAE's delinquent report on September 19, 2003.

PHYSICAL INVENTORIES OF PHONE CARD VENDING MACHINES

The OIG's first report on this subject stressed that there were no controls regarding the actual number and placement of machines scattered throughout the airport. A significant portion of the OIG's review included conducting an actual inventory of the number of machines and their location at the airport. As of July 2001, the OIG count showed that Communitel had 25 machines; LAE had 29 machines; and WTN had 23 machines.

As of January 2002, as part of the OIG's supplemental report, we counted LAE having 27 machines, WTN having 27 machines, and Communitel having 26 machines (20 phone card and 6 ATM/phone card combination devices). As a procedure to curb the proliferation of unauthorized machines and the unauthorized moving of machines, the OIG recommended a policy to affix MDAD decals on each device. This would assist in tracking the number and placement of machines.

MDAD, in its response dated February 14, 2002, stated that it would implement the decal identification for the machines. In a follow-up response dated July 18, 2002, MDAD stated that the decals were to be affixed shortly and that "a complete inventory of machines and their occupational license decals [would be] conducted on July 25 and 26, 2002."

As part of our update for this memorandum, the OIG reviewed MDAD operations to ensure that the department-initiated inventories were conducted. The OIG requested documentation for all inventories conducted by MDAD including checklists, work papers and notes evidencing compliance. According to MDAD documentation, inventories were performed in June 2002, May 2003, July 2003 and October 2003.

The objective of the July 2003 inventory was to physically inspect all prepaid phone card machines and ATM machines (ATM machines under Communitel's permit PX 890), verify that the machines had their MDAD ID# and occupational licenses, verify the location of each machine, and examine the condition of the machine.

The OIG's examination of the July 2003 inventory tabulations revealed that there were a total of 75 devices counted.

WTN - 26 LAE - 25 Communitel - 24 (22 phone cards and 2 ATMs)

These are less than the number of machines allowed under the permit, which may suggest that not all of the machines were located and/or the permittees have less than the authorized number of devices on the premises. Inventory results of the 75 machines located show that seven (7) devices had no occupational licenses and one machine's license had expired. Additionally, nine (9) machines did not have the proper MDAD decal affixed to the machine.

The OIG was advised that as of October 2003, MDAD conducted a new physical inventory complete with photographs of the machines and their licenses, decals and other identifying insignia.

In assessing whether the number of devices exceeds the allowable number under the permit, it is imperative that all the machines are actually counted. Operating more devices than authorized may result in the under reporting of revenues to the County.

OIG representatives met with MDAD's new manager of its Commercial Operations Division. We were advised that new measures have been recently implemented to facilitate a better flow of communication between the Department and its airport tenants. These tenant meetings take place both with groups of tenants and with individual tenants, one-on-one, to address any issues or exceptions specific to that tenant's contract/lease.

We were also provided with a new form to be utilized by MDAD staff for future phone card inventories. This standard form entitled *Telephone Prepaid Cards Compliance Inspection Program* prescribes four (4) inventory objectives and several steps to complete the inventory. These four objectives are: (1) Compliance with County policy, (2) Propriety of billings, compliance with permit terms and County and Aviation policy, (3) Documentation of exceptions and (4) Timely reporting and review.

The OIG believes that the implementation of this new standardized form will greatly improve the Department's management of the Agreement through routine inventories.

ATM MACHINES PIGGY-BACKED ON THE PREPAID PHONE CARD PERMITS

As noted in its original report, the OIG found that one of the three vendors was authorized to install several ATM/prepaid phone card combo devices as part of its permit. This authority was granted only[9] to Communitel and was considered a modification to its original permit PX 506. Subsequently, the ATM authorization was incorporated into Communitel's

[9] Neither WTN nor LAE have authorization for ATM units under their permits. The OIG did find a letter from WTN, dated April 29, 2003, in the MDAD files requesting authorization to install ATMs under similar conditions to Communitel's permit. While a response by MDAD to this request was not found, it appears that the request was denied as WTN does not have ATMs.

permit PX 830, effective November 1, 2002 through April 21, 2003, for the installation of five (5) ATM/phone card machines.[10] Under the current permit, PX 890, the number of ATM/phone card devices was increased to a total of six (6) machines in addition to the 22 prepaid phone card machines authorized under the permit.

While the original documentation in the file depicts the authorization for ATM/phone card combination devices as part of the testing environment under the test permits, MDAD's own documentation from 1999, as previously reported by the OIG, questioned whether these devices were operating as combination devices. The OIG recently examined several of the Communitel ATM devices and observed that they are not combination devices but stand-alone ATM machines. In any event, upon execution of the new Agreement, MDAD should require the removal of the six ATM permits authorized under PX 890. To allow continued placement of these ATMs would "circumvent the bidding process for ATM services."[11]

ALLEGATIONS OF IMPROPER FINANCIAL TRANSACTIONS ARE UNFOUNDED

During the course of this review, the OIG was informed of certain allegations, that on its face suggested improper financial transactions between the principal of one of the bidders, Mr. Juan Jose Pino, President of Latin American Enterprises, and a certain individual named Juan Mario Junco del Pino, Minister of Construction, Cuba.[12] This information appeared within Merrill Lynch Payment History Detail documents of Mr. Pino's, and was reviewed by the OIG in light of this serious accusation. The history details, five in total, seem to indicate possible wire transfers of funds from the LAE account to Juan Mario Junco del Pino. OIG Special Agents met with Mr. Juan Jose Pino and asked him about these documents. Mr. Pino said that he had contacted Merrill Lynch about these same concerns. A Ms. Katy Ross of Merrill Lynch explained to Mr. Pino that the information contained on the Payment History Detail pertaining to the named individual Juan Mario del Pino, Minister of Construction, Cuba, was a Merrill Lynch internal security warning that appears on the document due to the name similarities. The security warning appears because Merrill Lynch does not allow wire transfers to certain prohibited persons.

[10] While only five (5) machines were authorized, correspondence in MDAD Commercial Operation's file for Communitel acknowledges that even under PX 830, Communitel had six (6) ATM machines in operation.

[11] MDAD letter dated September 23, 1999 regarding Communitel's ATM/phone card combination devices where it is discussed that since the phone card component had not been added to the ATM equipment, it would appear to have been a means to circumvent the bidding process for ATM services. The letter was previously referenced in the OIG's original report of August 15, 2001.

[12] This information was independently obtained by the OIG. Subsequently, the OIG was provided with the same allegation by another bidder for the prepaid phone card contract. The documents provided to the OIG are copies of the same documents obtained by the OIG.

During the OIG's meeting, Mr. Pino produced two letters confirming the above explanation. The letters were signed by Ms. Katy Ross, Assistant Vice President, Administrative Manager. The letters confirm that the wire transfers did not go to the Cuban official, but instead went to Mr. Pino's account at Nations Bank of Florida. The letter also advised that "Merrill Lynch's system identifies similar names of individuals with whom we are prohibited from doing business." In the presence of the OIG's Special Agents, Mr. Pino placed a call to the Merrill Lynch offices. Ms. Ross was put on speakerphone and the OIG Special Agents confirmed with her that the name appearing on the Payment History Detail was simply a security warning. No improper transactions took place. The allegations are unfounded.

FINAL RECOMMENDATION OF THE HEARING EXAMINER

During the course of this procurement process, certain allegations relating to the bidders of this contract have been raised to the OIG. On several separate issues the OIG has been presented with information, perhaps in the hope that this office would further investigate the allegations. Regarding two issues, in particular, the same allegation was raised in the pleadings of a filed bid protest. These were an allegation regarding the Disadvantaged Business Enterprise (DBE) certification of Blackstar LLC and an allegation regarding the weak financial condition of LAE. Both of these allegations were flushed out during the bid protest hearings and the OIG does not find any credible need to further investigate this matter.

Regarding LAE's financial condition, this was addressed in both bid protest hearings. The second hearing examiner acknowledged the previous finding of the first hearing examiner concluding that there was no evidence to find that LAE is not financially responsible or is on the verge of bankruptcy. The second hearing examiner concludes that: "because the issue was fully litigated before Judge Feiler [first hearing examiner], and based on the findings made by Judge Feiler, Communitel is estopped from maintaining a protest on these grounds based on the doctrine of Res Judicata and Collateral Estoppel, absent evidence of fraud, arbitrary acts, illegality or dishonesty." (Findings of Fact, Conclusions of Law and Recommendations of Hearing Examiner, filed with the Clerk of the Board, October 5, 2003, pages 18-19, hereinafter "Second Recommendation of the Hearing Examiner.")

Within the Second Recommendation of the Hearing Examiner are two references to the OIG. The first directly follows from the passage cited above. "Thus it is my expectation in upholding this award to LAE that the Manager and County Commission will balance this decision against the findings of the currently in progress Inspector General's audit of the respective permit holders."

A representative of the OIG was present during the hearing. No evidence or testimony was tendered suggesting that an audit was in progress. Only the video footage of the July 8, 2003 agenda hearing was made part of the record. Additionally, the above passage seems to suggest that the OIG's audit of the respective permit holders would include an examination of the companies' financial condition as it relates to their responsibleness. Even if the OIG had chosen to conduct an audit, it would not have been a financial audit of companies.

In this conclusion, the hearing examiner states: "Therefore, it is the recommendation of the undersigned that the County Manger's recommendation of award to LAE be upheld, and accepted by the County Commission, **provided that there is no evidence to the contrary in the Inspector Generals audit / report.**" (Second Recommendation of the Hearing Examiner, p. 20. Emphasis in original.)

This OIG memorandum is not intended to validate or provide arguments against the County Manager's recommendation for award. Its sole purpose is to provide this Board with an update of previously reported issues regarding prepaid phone card vending machines at Miami International Airport.

The OIG's number one recommendation was that the expired test permits be replaced by a competitively bidded contract. The Department concurred and an Invitation to Bid on a new prepaid phone card vending machines agreement was advertised on June 6, 2002. As synthesized in the accompanying Schedule A, the OIG is quite satisfied with MDAD's redress of our findings, recommendations and concerns. As the mechanisms to implement many of these new procedures is contained in the new Agreement, the OIG assures this Commission, that once executed, the OIG will continue to monitor the Agreement and compliance with its terms.

Finally, I want to emphasize that my office is satisfied with the process undertaken by the airport and the county manager in recommending the award of this contract to the highest bidder. Unfortunately, a process that has been transparent, fair and comprehensive is being undermined by questionable tactics that have included the circulation of divisive and misleading allegations of impropriety directed at the highest bidder. These tactics have caused an unnecessary delay in awarding this contract, not to mention the resultant costly burden placed on county staff. Consequently, it is my hope that the Commission will move swiftly in awarding this contract according to the Manager's recommendation to the highest bidder.

CC: Robert A. Ginsburg, County Attorney
George Burgess, County Manager
Bill Johnson, Assistant County Manager
Angela Gittens, Director, Miami-Dade Aviation Department

Clerk of the Board (copy filed)

SCHEDULE A
OIG FINDINGS AND RECOMMENDATIONS

OIG Finding & Recommendations	MDAD Response	OIG Comments New Contract Provisions, Etc.
1. The expired test permits for phone card vending should be replaced by a contract that will be competitively bid. *(From the OIG's draft report, dated August 2, 2001 and reiterated in the final report dated August 15, 2001.)*	The solicitation document is currently being prepared. It has always been the intention of the Department to competitively bid this service as is evidenced by the different iterations of the solicitation packages over a five-year period. *(From MDAD's response, dated August 9, 2001, to the OIG draft report.)*	Invitation To Bid for the Prepaid Phone Card Vending Machines, Bid No. MDAD0003, advertised June 6, 2003. Previously scheduled for contract award on January 21, 2003 – withdrawn due to pending bid protest. Subsequently rescheduled for contract award on July 8, 2003. Motion to waive bid protest procedures failed, matter withdrawn due to pending bid protest. Currently scheduled for contract award on December 16, 2003.
2. Adequate controls should be implemented to prevent machines from appearing on Airport premises without the written authorization of Aviation Department staff. *(From the OIG's draft report, dated August 2, 2001 and reiterated in the final report dated August 15, 2001.)*	The Department has been working on a new placement plan for the existing phone card vending devices in order to clean-up the Terminal. We have met with the vendors to discuss their operations and the placement of the machines. These new locations will be incorporated into a new interim Permit that will be issued in order to bridge the period between the existing operations and the issuance and award of a new concession agreement. The vending sites will be reduced based on policy and experience and will be strictly enforced. *(From MDAD's response, dated August 9, 2001, to the OIG draft report.)*	OIG comment: The OIG has observed that since our first report in August 2001, MDAD's paperwork has significantly improved and the subsequently issued permits did attach a more complete site plan. The reduction in the overall number of machines is evident in the new proposed Agreement, which sets the number of devices at 37.
3. Specific locations of placement should be adhered to. The actual placement of vending equipment should correspond to the pre-determined locations reflected in the agreement. *(From the OIG's draft report, dated August 2, 2001 and reiterated in the final report dated August 15, 2001.)*	The vending sites will be established in all future agreements and the procedures for addition, deletion and modification will be strictly adhered to. *(From MDAD's response, dated August 9, 2001, to the OIG draft report.)*	Exhibit A of the new Agreement establishes the vending sites for the 37 machines. Additions, Deletions and Relocations are addressed in Article 1.05 of the new Agreement.

22

Schedule A
OIG Findings and Recommendations

	OIG Finding & Recommendations	MDAD Response	OIG Comments New Contract Provisions, Etc.
4.	Due to the misleading nature of the record keeping for the phone card permits, the MDAD should engage in an audit of the books and records of the three firms. *(From the OIG's draft report, dated August 2, 2001 and reiterated in the final report dated August 15, 2001.)*	As a matter of procedure, and within the Terms and Conditions of the existing Permit document, the year-end audit will continue to be performed. The firms have submitted annual audits to the Department in accordance with the requirements of the Permit. *(From MDAD's response, dated August 9, 2001, to the OIG draft report.)*	Discussed at length in the instant memorandum. See also OIG memorandum on page 5, where the two additional audit certifications are discussed. Footnote 5 and 6 lay out the language required in the new certifications.
5.	MDAD should require that current phone card and ATM vending machines be equipped with an activity register, which would monitor the amount of services rendered by each machine. The vendors should be required, upon request by the appropriate County staff, to allow inspection and production of these records in accord with other accounting procedures contained in the contract's general covenants. It is advised that the new competitive bid for phone card/ATM services include these provisions. *(From the OIG's draft report, dated August 2, 2001 and reiterated in the final report dated August 15, 2001.)*	The language requiring activity monitors and access to information has been incorporated into the new agreement. The covenants of the existing permit agreement will be strictly enforced. *(From MDAD's response, dated August 9, 2001, to the OIG draft report.)*	Article 3.14 Additional Reports of the proposed agreement, which states in part: "The Successful Bidder will be required to provide electronic records of all transactions by location, by machine, for accounting and auditing purposes. The Prepaid Phone Card Vending Machines must generate printed revenue reports as requested by the Department. The manufacturer of the vending machines must provide a certificate verifying that the revenue mechanism creating the reports is tamperproof. Any evidence of tampering may lead to termination of the Agreement. . . . A copy of the transaction report or similar information will need to be submitted with the concessionaires' monthly payment for verification.
6.	MDAD … must ensure that the appropriate vending decals licenses are affixed to each of the vending machines and that the number of vending machines on the premises at MIA, and the vendor's corresponding decal numbers match, with the number purported by the vendor in its occupational license declaration. *(From the OIG final report, dated August 15, 2001.)*	No direct response provided.	No known action taken by the Department after the publication of the OIG's Final Report of August 15, 2001. This issue was subsequently readdressed by the OIG in its supplemental report, dated January 28, 2002. See number 10 of this schedule.

23

SCHEDULE A
OIG FINDINGS AND RECOMMENDATIONS

	OIG Finding & Recommendations	MDAD Response	OIG Comments New Contract Provisions, Etc.
7.	Should the Tax Collector and MDAD find machines without the appropriate decals, MDAD, as the "owner" of the business premises, is obliged to secure the licenses itself (cost of decals/licenses should be charged to the vendor) [Section 8A-221(2)(b)] or the County shall post "Notices of Delinquent Taxes" as required under Section 8A-221(5). *(From the OIG final report, dated August 15, 2001.)*	No direct response provided.	No known action taken by the Department after the publication of the OIG's Final Report of August 15, 2001. This issue was subsequently readdressed by the OIG in its supplemental report, dated January 28, 2002. See number 10 of this schedule.
8.	The OIG reiterates its previously stated recommendation, which suggests that the Department conduct an audit of the three vending companies. The OIG recommends that the Department invoke its right to audit clause of the general covenants as opposed to relying on the self-reporting annual audits submitted by the vendors. *(From the OIG final report, dated August 15, 2001.)*	No direct response provided.	See Comment to recommendation number 4.
9.	According to MDAD management, it has not been a past practice of MDAD to require vendors to obtain approval prior to bringing the phonecard devices onto Airport premises. This means that no MDAD staff member has acknowledged the existence of the added devices. Given the significant security concerns involving airports, or for that matter, any public building, it is extremely important for the appropriate personnel to not only authorize devices that are affixed in public areas, but also to know of the location of such devices. As such, a policy should be established that requires all devices to have an additional MDAD decal affixed to the device. This would insure that MDAD staff keeps a record of all devices and that appropriate security measures are adhered to with respect to placing the individual devices within the terminal. *(From the OIG's Supplemental Report, dated January 28, 2002.)*	The Department is implementing a decal identification program for all Terminal machines. When decals are issued, an updated site map will be used as the baseline for all future adds, moves and changes. *(From MDAD's February 14, 2002 response.)* Update: Numbered Aviation Department identification decals will be installed on all machines and a complete inventory of machines and their occupational license decals will be conducted. Under the new contract, replacement or movement of machines from assigned locations must be approved in writing by the Department. *(From MDAD's July 18, 2002 response.)*	The new contract includes an Exhibit D Standards of Operation, which contains a provision addressing this issue. "(3) The Department will require the Concessionaire to affix MDAD provided decals to each phone card vending machines located in Department approved locations. Inventory will be taken at least yearly." Exhibit A of the new Agreement establishes the vending sites for the 37 machines. Additions, Deletions and Relocations are addressed in Article 1.05 of the new Agreement.

24

SCHEDULE A
OIG FINDINGS AND RECOMMENDATIONS

OIG Finding & Recommendations	MDAD Response	OIG Comments New Contract Provisions, Etc.
10. None of the eighty (80) prepaid phonecard vending devices have the appropriate 2001-2002 vending license decals. Twenty-two (22) of the eighty (80) devices have no decal at all. Each of the six (6) portable ATM combo machines also lacks the appropriate 2001-2002 vending decals. This means that twenty-eight (28) of the vending devices at no point have been registered with the Occupational License Division of the Miami-Dade County Tax Collector. *(From the OIG's Supplemental Report, dated January 28, 2002.)*	Vendors were notified that all machines must display evidence of registration with the appropriate State and County agencies. Inspection for these registrations will be added to the regular inventory checklist, and failure to comply will result in Permit termination. *(From MDAD's response dated February 14, 2002.)* Each operator has provided evidence of County vending licenses for each machine and copies of the requisite decals are on file with the Department. Each of the three vendors has obtained and supplied proof of County and, where applicable, City vending licenses. *(From MDAD's response dated July 18, 2002.)*	See Article 14.03 Permits and Licenses: The Concessionaire shall obtain, pay for, and maintain on a current basis all permits and licenses as required for its operations hereunder.
11. The OIG observed that not all of the vendors were registered with the Florida Public Service Commission. *(From the OIG's Supplemental Report, dated January 28, 2002.)*	The Public Service Commission does not require registration from resellers of prepaid phone cards who do not provide long distance service. As none of the vendors provides long-distance service, all are exempt. *(From MDAD's response, dated July 18, 2002.)*	No comment
12. Many of the prepaid phonecard devices have storage capacity. There are some models that are empty at the base. It is these models that have the capacity to store any type of object. There should be a thorough, periodic inspection conducted of all devices to insure compliance with heightened safety and security measures that apply to the terminal building and concourses. *(OIG's Supplemental Report, dated January 28, 2002.)*	In addition to active and passive security measures already in force, vendors have covered or filled all machine openings and cavities and certified their compliance to the Aviation Department in writing. Inspection for compliance will be added to the regular inventory checklist. *(From MDAD's response, dated July 18, 2002t.)*	The new contract includes an Exhibit C Minimum Features and Standards, which contains a provision addressing this issue. "(12) Phone card vending machines must not have any cavaties or openings in which to conceal explosives or any other type of potentially damaging material."
13. There were two unplugged devices noticed during the December 2001 inventory. These unplugged devices serve no useful purpose, clutter the terminal and concourses. *(OIG's Supplemental Report, dated January 28, 2002.)*	Functioning machines are sometimes unplugged during cleaning by janitorial staff. This was apparently the case with the two observed by the OIG. *(From MDAD's response, dated February 14, 2002.)*	No comment

25

SCHEDULE A
OIG FINDINGS AND RECOMMENDATIONS

OIG Finding & Recommendations	MDAD Response	OIG Comments New Contract Provisions, Etc.
14. The OIG has reviewed a number of complaints made by passengers with regard to the prepaid phone card devices. The complaints range from no phone card dispensed (the machine ate the money) to the cards not working. Some consumers also complained that the 800-numbers provided little or no help at all in obtaining a refund. These are significant quality of service matters that MDAD management should also specifically address. *(See OIG's Supplemental Report, dated January 28, 2002.)*	Although a complaint procedure has been in force for the duration of the permits, the Department is considering additional measures to enhance service. The Department is considering referring complaints to the Consumer Services Department, although arrangements are still incomplete. *(From MDAD's response, dated July 18, 2002, to the OIG's Supplemental Report.)*	The new contract includes an Exhibit D Standards of Operation, which contains a provision addressing this issue. "(16) Concessionaire must contract with current on-site vendor or vendors, so as to provide immediate refunds to customers. Location of refund must be clearly posted on each machine."

Memorandum

MIAMI-DADE COUNTY

Date: August 25, 2004

To: Honorable Alex Penelas, Mayor
Honorable Chairperson Barbara Carey-Shuler, Ed.D. and Members
Board of County Commission

From: George M. Burgess
County Manager

Subject: Audit Report – Prepaid Phone Card
Vending at Miami International Airport

As requested by the Board of County Commissioners, attached is a report prepared by the Audit and Management Services Department dated August 10, 2004, regarding prepaid phone card vending at Miami International Airport. The Aviation Department's response, including responses from auditees, will be forwarded upon receipt.

Please contact Cathy Jackson, Director, Audit and Management Services Department, if you have questions or require clarification.

Attachment

c: Honorable Harvey Ruvin, Clerk of the Courts
Bill Johnson, Assistant County Manager
Rachel Baum, Director, Miami-Dade Finance Department
Angela Gittens, Director, Aviation Department
Cathy Jackson, Director, Audit and Management Services Department
Susan Warner Dooley, Assistant Aviation Director for Business Management
Ian Yorty, County Tax Collector
Charles Anderson, Commission Auditor
Christopher Mazzella, Inspector General

MEMORANDUM

TO: George M. Burgess
County Manager

DATE: August 10, 2004

SUBJECT: Audit Report - Prepaid Phone Card Vending at Miami International Airport (MIA)

Cathy Jackson

FROM: Cathy Jackson, Director
Audit and Management Services Department

PURPOSE AND SCOPE

As requested, we audited prepaid phone card permit holders Communitel, Inc., Latin American Enterprises, Inc. and WTN, Inc. for the three-year period ended December 31, 2003. The purpose of this review was to assess compliance with applicable provisions of the Prepaid Phone Card Vending Permit (the Permit), verify accuracy of revenues reported and percentage fees paid to Miami-Dade Aviation Department (the Department), and evaluate the financial condition of permit holders, pertinent to the pending award of Prepaid Phone Card Vending Machine Agreement ITB MDAD0003.

To achieve audit objectives, we performed the following:

- Met with the chief executive officer and/or chief financial officer of each company to obtain an overview of prepaid phone card vending operations.
- Toured prepaid phone card vending machine terminal locations with representatives from all three permittees, observing cash collection and phone card replenishment processes.
- Reviewed and tested documentation supporting reported revenues to establish accuracy and completeness. Accuracy of bank deposits was verified with original vending machine tapes/cash collection and monthly revenue reports, as well as annual certified reports of gross revenue prepared by independent accountants. Additionally, permittee bank statements were reviewed to assure completeness of revenue reporting.
- Analyzed and verified accuracy of percentage fee payments to determine compliance with Permit provisions and timeliness of payments.
- Obtained federal income tax returns for the past three years through fiscal year (FY) 2002 to assess propriety of reported gross revenues and reviewed permittee gross profit margins. Income tax returns for FY 2003 had not been filed at the time of our fieldwork.
- Performed unannounced inventory of all permittee vending machines located throughout the terminal to confirm authorized unit quantities.
- Assessed compliance with financial reporting, security deposit and liability insurance requirements.

BACKGROUND

In June and September 1995, the Department issued one-year test permits to three companies—Communitel, Inc., Latin American Enterprises, Inc. (LAE) and WTN, Inc.—to sell prepaid phone cards from vending equipment installed at designated locations throughout the terminal. In September 1998, Communitel was authorized to install five automated teller machines (ATMs) after removing 10 vending machines. Subsequently, permits continued through November 2001, and thereafter were renewed on a month-to-month basis. Additionally, LAE and WTN supply prepaid phone cards to the MIA pharmacy and newsstand for resale. In 2003, pharmacy and newsstand phone card purchases totaled $98,757 and$76,500 from WTN and LAE, respectively.

In June 2002, the County issued an Invitation to Bid (ITB) and received five proposals, including bids from each of the three permittees. In January 2003, the County Manager recommended awarding the lease and concession agreement to the highest bidder—WTN and joint venture partners. Two of the bidders and current permit holders—LAE and Communitel—each filed written protests challenging the recommendation. In anticipation of the bid protest process extending the award, permits were re-issued to permittees on a month-to-month basis effective April 2003. Bid protest hearings were conducted and the Hearing Examiner upheld the County Manager's recommendation. However, WTN and joint venture partners expressed reservations about the bid price and decided not to execute the contract. The County Manager then recommended the agreement be awarded to the next highest responsive bidder (LAE), which is currently pending ratification by the Board of County Commissioners (BCC).

The Permit authorizes a specified number of vending machines for each operator—Communitel has 22 with six ATMs; LAE and WTN each have 27 vending machines. From inception through October 31, 2001, permittees paid the Department percentage fees equal to 15% of gross revenues derived from Airport operations; in addition, Communitel pays 25% of service fees collected from ATM operations. On November 1, 2001, the permit fee on prepaid phone card gross revenues was increased to 25%, and effective April 22, 2003, each permittee was required to pay the greater of the permit fee or a Minimum Annual Guarantee (MAG) of $250,000 ($20,833 monthly). Reported gross revenues and fees paid for the five years ended September 30, 2003 are presented in Table I and further detailed in Schedule I.

Table I
Gross Revenues and Fee Payments

	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
Communitel:					
Prepaid Phone	$ 648,826	$ 757,284	$ 1,083,609	$ 1,200,799	$ 1,360,665
ATM	380,458	351,676	372,320	369,934	325,387
	1,029,284	1,108,960	1,455,929	1,570,733	1,686,052
LAE Prepaid Phone	570,970	704,276	1,030,198	1,074,696	1,076,246
WTN Prepaid Phone	477,381	617,617	810,625	928,468	1,080,584
Total	$ 2,077,635	$ 2,430,853	$ 3,296,752	$ 3,573,897	$ 3,842,882
Annual Fees Paid	$ 631,429	$ 591,947	$ 531,748	$ 573,078	$ 592,551

Source: Aviation Department Finance Division.

In August 2001 at the request of the BCC, the Office of the Inspector General (OIG) reviewed prepaid phone card vending permits and inventoried equipment in December 2001, noting various concerns, the most significant being:

- Expired prepaid phone card vending permits that should be replaced by competitive bid process.
- Lack of procedures to properly monitor vending machines, allowing vendors to increase quantities above those approved in the Permit.
- Expansion of Permit scope of services allowing Communitel to operate ATM machines without a competitive bid process.

In July 2003, the BCC asked the OIG to update its previous report, conduct a financial audit of permittees and review the propriety of the Invitation to Bid process. In its December 2003 report, the OIG indicated satisfaction with the Invitation to Bid/award process, and concluded that a financial audit was not necessary (Attachment I). Further, the OIG accepted the Department's redress of its previous findings, noting the proposed contract incorporated many OIG recommendations.

SUMMARY RESULTS

Permittees are in general compliance with Permit provisions and reported revenues are accurate in all material respects. As of July 28, 2004, Communitel and WTN have no outstanding balances due the Department under the Permit. However, LAE is delinquent $49,745, which includes items dating back to January 2004. In response to the Department's May 26, 2004 default letter, LAE is repaying the delinquency in 10 monthly installments commencing June 10, 2004, albeit the Department did not formally accept this payment plan until August 10, 2004. According to Permits, MAG payments are due in advance the first day of the month and percentage fees are due the 10th day of the following month. Payments received after the due date are considered late, however, late fees are assessed 10 days after the due date. Permittee past-due occurrences over a 42-month period are presented in Table II.

Table II
Summary of Delinquent Payments from October 1, 2000 through March 31, 2004

Fiscal	*WTN*				*Communitel*				*LAE*			
	Percentage Fees		Minimum Guarantee[1]		Percentage Fees		Minimum Guarantee[1]		Percentage Fees		Minimum Guarantee[1]	
Year	Times Late	Late Range	Times Late	Late Range	Times Late	Late Range	Times Late	Late Range	Times Late	Late Range	Times Late	Late Range
2004	N/A	N/A	6	2-7 days	2	2 days	6	5-13 days	N/A	N/A	6	21-64 days
2003	7	2-12 days	6	1-17 days	7	2-23 days	6	21-43 days	7	11-41 days	6	7-59 days
2002	8	2-6 days	-	-	11	2-96 days	-	-	10	2-36 days	-	-
2001	8	2-4 days	-	-	10	1-6 days	-	-	11	3-20 days	-	-

[1]Minimum Annual Guarantee effective April 22, 2003, payable on the first of each month without billing.
N/A – Percentage fee payment did not exceed the MAG.

More exhaustive analysis disclosed Communitel is in arrears $55,268 under another agreement executed in November 2003 (baggage checkroom concession) representing past-due MAG payments for the months of February through July 2004. On March 29, 2004, Communitel requested relief and, after negotiations, agreed to repay delinquent MAG fees totaling $28,849 for February through April in six monthly installments commencing May 2004. However, only 50% of the scheduled monthly amount is being remitted, effectively extending payment terms from six to 12 months. More recently, Communitel petitioned the Department to waive MAG requirements for six months through October 2004 and thus, pending a formal reply, has not remitted MAG payments for the months of May through July 2004.

Our review also disclosed that management suspended late fee assessments Department-wide due to a program flaw in the property billing system. Following audit inquiries, the decision was rescinded and fees are now being retroactively assessed. The results of our limited financial analysis and other noncompliance matters are noted below.

Financial Analysis

Over the past six years, combined revenues steadily declined from a high of $3.5 million in FY 1999 to $1.4 million in FY 2004, representing a 59% decrease (Table III). Likewise, the average revenue per machine has dropped from a high of $48,854 in FY 1999 to $18,917 in FY 2004. Permittees attribute the decline to reduced international passenger traffic, as well as increased competition from cellular phone service providers and ATT *yellow* phones. After the MAG was established in April 2003 to $250,000 per permittee ($750,000 combined), fee payments as a percentage of monthly revenue collections nearly doubled, negatively affecting profit margins (Schedule I). Average gross profit margins for WTN, LAE and Communitel were 54%, 40% and 12%, respectively. Consequently, permittees, (some more than others) are struggling to timely remit monthly MAG payments (Table II).

Table III
Prepaid Phone Card Vending Gross Revenues

	FY 2004*	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
Communitel	$ 564,695	$ 648,826	$ 757,284	$ 1,083,609	$ 1,200,799	$ 1,360,665
LAE	473,779	570,970	704,276	1,030,198	1,074,696	1,076,246
WTN	399,252	477,381	617,617	810,625	928,468	1,080,584
Total Revenues	$ 1,437,726	$ 1,697,177	$ 2,079,177	$ 2,924,432	$ 3,203,963	$ 3,517,495
Annual Fees Paid	$ 750,000	$ 567,853	$ 504,023	$ 438,666	$ 480,594	$ 527,628
Fees as a % of Revenues	52%	33%	24%	15%	15%	15%
Machines Reported [1]	76	76	76	75	73	72
Revenue/Machine	$ 18,917	$ 22,331	$ 27,358	$ 38,992	$ 43,890	$ 48,854

Source: Aviation Department Finance Division.
*Annualized based on sales reported October 1, 2003 through June 30, 2004.
[1] Averaged due to variations between vendors during the earlier years.

Under the proposed new lease and concession agreement, there will be only one operator authorized to install a maximum 37 machines. As displayed in Table IV, the top three bidders each proposed a MAG which slightly exceeds $1.08 million, requiring annual gross sales of $4.3 million assuming a 25%

percentage fee rate. The $1.08 million represents 75% and 64% of FY 2004 and FY 2003 combined revenues, respectively, leaving only a small margin to absorb phone service costs and other operating expenditures. Further, a review of unaudited income and expense data extracted from available income tax returns confirms that permittees cannot absorb percentage fees proposed without increased revenues (Schedule II). Together with declining revenues and a very competitive market environment, these are clear indicators that MAGs proposed by the top three bidders are unreasonable and unattainable.

While we recognize the new agreement will require a Performance Bond equal to the MAG to ensure payment, the Department must weigh the foregoing factors in assessing reasonableness of the bids to minimize risk of lost revenue or preclude future concessions which could taint the integrity of the procurement process. If the Department concurs that bids are unrealistic, then the top three should be eliminated and merits of bids submitted by the fourth- and fifth-ranked companies considered; otherwise, all bids should be rejected. If the Department moves forward with the existing recommendation, then the bid for the named awardee should be accepted without modifying proposal terms. If a contract is not executed, then the next responsibly-ranked firm should be considered for award; if efforts are again unsuccessful, the offer should be extended to others in succeeding order until a contract is executed. If all agree to rescind their offerings, only then should the contract be re-advertised. We strongly discourage adjusting MAG requirements after the Permit has been awarded, as doing so will raise doubts about the integrity of the procurement process.

Table IV
Proposed MAG and Anticipated Sales

Bidder	Proposed MAG	Required Annual Sales[4]	Proposed MAG as a % of 2004 Revenues[1]	Proposed MAG as a % of 2003 Revenues[1]	Authorized Machines	Revenue per Machine
WTN/JV	$ 1,089,312	$ 4,357,248	76%	64%	37	$ 117,763
LAE	$ 1,081,495	$ 4,325,980	75%	64%	37	$ 116,918
Communitel	$ 1,080,009	$ 4,320,036	75%	64%	37	$ 116,758
Travelex	$ 701,000	$ 2,804,000	49%	41%	37	$ 75,784
Datawave [2]	$ 300,000	$ 1,200,000	21%	18%	37	$ 32,432
Current MAG [3]	$ 750,000	$ 3,000,000	52%	44%	76	$ 39,474

[1] Combined permittee revenues were $1.7 million and estimated at $1.4 million in FYs 2003 and 2004, respectively.
[2] Proposed MAG excludes Consumer Price Index adjustment and a one-time $50,000 payment at lease inception.
[3] Reflects actual MAG for all permittees in FY 2004.
[4] Assumes a 25% percentage fee rate.

Noncompliance Matters

Equipment Inventory

On April 27, 2004, we performed an unannounced inventory of vending and ATM machines to ascertain adherence with equipment and assigned terminal locations, noting all permittees were operating within established limits. However, Department identification numbers were missing for 20 of the 82 machines or 24%, and 18 had been relocated throughout the terminal without Department authorization. In addition, 34 machines had expired or no occupational license decals. We also noted six machines unplugged for no apparent reason. Schedule III details exception conditions by permittee.

Follow-up discussions with LAE revealed Occupational License decals were bulk purchased in December 2003 after the September 30, 2003 expiry; however, these decals were returned undeliverable to the County Tax Collector's Office by the U. S. Postal Service. On August 8, 2004, LAE received the re-issued decals. LAE was unaware the decals had been lost until audit inquiry. On June 30, 2004, WTN furnished copies of their missing decals and requested replacements from the Tax Collector's Office. Communitel corrected its exception conditions July 16, 2004.

Insurance

Proof of required insurance coverage for Communitel and WTN was not on file with the Department's Risk Management Division at the time of our fieldwork. We did note a Communitel certificate for the baggage checkroom operation and, following our inquiry, Risk Management requested an amendment to include the prepaid phone vending operations; however, the revised certificate has not been received to date. After audit inquiry, WTN promptly provided Risk Management with evidence of current insurance. Similarly, LAE's insurance certificate expired May 5, 2004 and the renewal document was received by Risk Management on June 24, 2004. However, the general liability rider did not name the Department as additional insured or specify MIA as an insured location. A revised certificate was submitted July 6, 2004 naming the Department as additional insured, but still omitted MIA as an insured location. On July 26, 2004, LAE cleared this deficiency.

Reporting

The Permit requires submission of monthly gross revenue reports listing revenue sources attested to by a corporate officer or other authorized representative. Additionally, gross revenue reports audited by an independent Certified Public Accountant are required 90-days after permit year-end. Monthly gross revenue reports submitted by WTN and LAE during the audit period were not certified for accuracy by corporate officers.

Further, on August 5, 2004 LAE submitted monthly gross revenue reports for May and June 2004, which were due June 10th and July 10th, respectively. However, these reports omitted revenue collections by vending machine, as required by the Permit. Although Communitel complied haphazardly, all monthly report submissions since January 2004 were properly certified. As shown in Table V, audited statements of gross revenues were routinely submitted late by Communitel and LAE. For example, in FY 2001, Communitel's annual gross revenue reports for prepaid vending and ATM revenues were submitted 243 and 805 days late, respectively. LAE's FY 2002 annual gross revenue report was late 233 days.

Table V
Delinquent Annual Report Submissions as of May 31, 2004

Permit Year	*WTN*	*Communitel*	*LAE*
	Number of Days Delinquent		
2003	0	60	61
2002	0	287	233
2001	0	243-805	10

Gross Revenue Discrepancies

Prior to the audit, Communitel and WTN had not disclosed unvended cash; since then, both have begun including these amounts in monthly revenue reports. Also, the divisor applied to gross collections to derive net sales and sales taxes payable to the Florida Department of Revenue was lower than published rates, resulting in a minor percentage fee overpayment of $4,766. As discussed with permittees, this overpayment will not be refunded nor will the Department assess additional fees resulting from unreported unvended cash, since both amounts are immaterial and offsetting.

During our exit conferences, permittees were receptive to the noncompliance deficiencies noted above and are actively working to resolve them. Nonetheless, the Department should follow up disposition and prospectively more diligently monitor and enforce Permit requirements. Permittees were also given *draft* copies of this report for comments prior to issuance. LAE had no comments, however, WTN and Communitel submitted commentaries for our consideration (Attachments II and III). After review, we re-affirm our findings and recommendations as stated herein.

We appreciate the cooperation and assistance shown our staff during the audit process. Communitel, LAE and WTN should provide an official written response to this report directly to the Aviation Department within 30 days, with a copy to the Audit and Management Services Department. In accordance with Administrative Order 3-7, the Aviation Department should provide its response within 45 days, including comments on permittees' responses. Please contact Cathy Jackson at 305-349-6100 if you have questions or need clarification.

CJ:rmb
Attachments
c: Honorable Harvey Ruvin, Clerk of the Courts
Bill Johnson, Assistant County Manager
Rachel Baum, Director, Finance Department
Susan Warner Dooley, Assistant Aviation Director for Business Management
Ian Yorty, County Tax Collector
Charles Anderson, Commission Auditor
Pedro Pelaez, Communitel, Inc.
Juan J. Pino, Latin American Enterprises, Inc.
Edward Meegan, WTN, Inc.

Schedule I

Miami Dade Aviation Department
Monthly Analysis of Revenue and Fee Payments for Prepaid Phone Card Permittees
For the five-year period ended September 30, 2003 and 9-months ended June 30, 2004

	Latin American Enterprises, Inc.				Communitel, Inc.					WTN, Inc.			
Month	Gross Revenues	Calculated Percentage Fee	Monthly Guarantee	Fees Paid [1]	Gross Revenues	Gross ATM Revenues	Calculated Percentage Fee	Monthly Guarantee	Fees Paid [1]	Gross Revenues	Calculated Percentage Fee	Monthly Guarantee	Fees Paid [1]
October '03	$ 34,411	$ 8,603	$ 20,833	$ 20,833	$ 53,856	$ 30,409	$ 21,066	$ 20,833	$ 21,066	$ 36,981	$ 9,245	$ 20,833	$ 20,833
November	42,575	10,644	20,833	20,833	46,198	30,638	19,209	20,833	20,833	33,374	8,344	20,833	20,833
December	46,673	11,668	20,833	20,833	50,411	33,500	20,978	20,833	20,978	42,336	10,584	20,833	20,833
January	43,182	10,796	20,833	20,833	59,312	31,622	22,734	20,833	22,734	35,963	8,991	20,833	20,833
February	40,160	10,040	20,833	20,242	42,930	30,184	18,278	20,833	20,833	31,168	7,792	20,833	20,833
March	35,745	8,936	20,833	24,168	41,587	36,608	19,549	20,833	20,833	29,103	7,276	20,833	20,833
April	40,042	10,010	20,833	10,010	48,028	28,683	19,178	20,833	20,833	25,243	6,311	20,833	20,833
May	35,571 [2]	8,893	20,833	-	40,333	33,168	18,375	20,833	20,833	29,981	7,495	20,833	20,833
June '04	36,975 [2]	9,244	20,833	-	40,866	32,609	18,369	20,833	20,833	35,290	8,822	20,833	20,833
Total	$ 355,334	$ 88,834	$ 187,497	$ 137,752	$ 423,521	$ 287,421	$ 177,736	$ 187,497	$ 189,776	$ 299,439	$ 74,860	$ 187,497	$ 187,497
Fees as a % of Revenues [4]				39%					45%				63%
October '02	$ 53,967	$ 13,492	$ -	$ 13,492	$ 48,152	$ 28,055	$ 19,052	$ -	$ 19,052	$ 41,346	$ 10,337	$ -	$ 10,337
November	45,995	11,499	-	11,499	52,257	25,934	19,548	-	19,548	40,327	10,082	-	10,082
December	59,131	14,783	-	14,783	73,781	33,729	26,878	-	26,878	48,626	12,157	-	12,157
January	54,215	13,554	-	13,554	53,075	33,839	21,729	-	21,729	44,720	11,180	-	11,180
February	41,836	10,459	-	10,459	49,550	30,503	20,013	-	20,013	34,654	8,664	-	8,664
March	45,841	11,460	-	11,460	46,492	37,086	20,895	-	20,895	35,402	8,851	-	8,851
April	28,229	7,057	-	7,057	29,686	20,999	12,671	-	12,671	19,140	4,785	-	4,785
Note [3]	14,748	3,687	6,250	6,250	22,385	9,584	7,992	6,250	7,992	14,822	3,706	6,250	6,250
May	40,121	10,030	20,833	20,833	42,454	34,752	19,302	20,833	20,833	36,729	9,182	20,833	20,833
June	41,551	10,388	20,833	20,833	49,532	30,610	20,036	20,833	20,833	38,850	9,713	20,833	20,833
July	46,963	11,741	20,833	20,833	59,311	33,363	23,169	20,833	23,169	40,953	10,238	20,833	20,833
August	59,345	14,836	20,833	20,833	76,572	34,600	27,793	20,833	27,793	46,345	11,586	20,833	20,833
September '03	39,028	9,757	20,833	20,833	45,579	27,404	18,246	20,833	20,833	35,467	8,867	20,833	20,833
Total	$ 570,970	$ 142,743	$ 110,415	$ 192,719	$ 648,826	$ 380,458	$ 257,324	$ 110,415	$ 262,239	$ 477,381	$ 119,348	$ 110,415	$ 176,471
Fees as a % of Revenues [4]				34%					40%				37%

Note: Gross Prepaid Phone card revenues exclude sales tax; ATM revenues are non-taxable.

[1] Represents payments received as of July 28, 2004.

[2] Monthly Revenues reported August 5, 2004.

[3] Effective April 22, 2003, the Aviation Director established a $250,000 Minimum Annual Guarantee (MAG) per permittee. Each permittee prorated its MAG share for the period April 22 to April 30, 2003. Permittee is required to pay a percentage fee of 25% of all gross revenues or the MAG, whichever is greater.

[4] Fees as a percentage of revenues were based on prepaid phone card revenues only.

Source: Annual Certified Report of Gross Revenues or MDAD Finance Monthly Revenue Reports by Permittee.

35

Miami Dade Aviation Department
Monthly Analysis of Revenue and Fee Payments for Prepaid Phone Card Permittees
For the five-year period ended September 30, 2003 and 9-months ended June 30, 2004

Month	LAE, Inc. [3] Gross Revenues	LAE, Inc. [3] Fees Paid	Communitel, Inc. Gross Revenues	Communitel, Inc. Fees Paid [2]	Communitel, Inc. Gross ATM Revenues	Communitel, Inc. Fees Paid [2]	WTN, Inc. Gross Revenues	WTN, Inc. Fees Paid
October '01	$ 52,601	$ 7,890	$ 54,802	$ 8,220	$ 16,927	$ 4,232	$ 50,290	$ 7,544
November [1]	55,521	13,880	75,575	18,894	24,472	6,118	52,654	13,164
December	63,995	15,999	65,368	16,342	28,372	7,093	58,664	14,666
January	64,783	16,196	63,981	15,995	30,887	7,722	58,206	14,552
February	52,249	13,062	54,472	13,618	28,077	7,019	50,888	12,722
March	59,408	14,852	73,000	18,250	37,150	9,288	52,318	13,080
April	56,685	14,171	54,311	13,578	32,327	8,082	48,729	12,182
May	58,113	14,528	69,491	17,373	32,205	8,051	48,252	12,063
June	58,028	14,507	57,321	14,330	28,675	7,169	46,757	11,689
July	63,268	15,817	59,335	14,834	33,240	8,310	55,336	13,834
August	67,005	16,751	65,880	16,470	32,982	8,246	54,168	13,542
September '02	52,620	13,155	63,748	15,937	26,362	6,591	41,355	10,339
Total	$ 704,276	$ 170,808	$ 757,284	$ 183,841	$ 351,676	$ 87,921	$ 617,617	$ 149,377
Fees as % of Revenues [4]		24%		24%				24%
October '00	$ 104,343	$ 15,651	$ 76,991	$ 11,549	$ 28,370	$ 7,093	$ 65,430	$ 9,815
November	91,671	13,751	70,757	10,614	27,442	6,861	71,467	10,720
December	92,549	13,882	94,743	14,211	24,820	6,205	75,467	11,320
January	103,413	15,512	80,444	12,067	32,715	8,179	73,121	10,968
February	78,718	11,808	80,570	12,086	30,575	7,644	59,009	8,851
March	90,770	13,616	113,858	17,079	37,077	9,269	70,869	10,630
April	80,742	12,111	83,127	12,469	29,377	7,344	56,112	8,417
May	76,377	11,457	81,442	12,216	32,642	8,161	61,533	9,230
June	78,239	11,736	113,755	17,063	37,095	9,274	70,710	10,607
July	77,840	11,676	98,075	14,711	35,980	8,995	64,972	9,746
August	83,001	12,450	118,682	17,802	34,865	8,716	78,000	11,700
September '01	72,535	10,880	71,165	10,675	21,362	5,341	63,935	9,590
Total	$ 1,030,198	$ 154,530	$ 1,083,609	$ 162,542	$ 372,320	$ 93,082	$ 810,625	$ 121,594
Fees as % of Revenues [4]		15%		15%				15%

Note: Gross Prepaid Phone card revenues exclude sales tax; ATM revenues are non-taxable.

[1] Effective November 1, 2001, new prepaid phone card vending permits were issued by MDAD, which increased the permit fee to 25% of gross revenues excluding taxes. (Prior to November 1, 2001 phone card fees were paid @ 15% and ATM fees @ 25%.)

[2] 15% Fees due on Prepaid Phone card revenues and 25% Fees on ATM revenues.

[3] The prepaid phone vending operations were conducted under Ursus Telecom Corporation until LAE assumed operations effective April 1, 2002.

[4] Fees as a percentage of revenues were based on prepaid phone card revenues only.

Source: Annual Certified Report of Gross Revenues.

36

Miami Dade Aviation Department
Monthly Analysis of Revenue and Fee Payments for Prepaid Phone Card Permittees
For the five-year period ended September 30, 2003 and 8-months ended June 30, 2004

	LAE, Inc. [3]		Communitel, Inc.				WTN, Inc.	
Month	Gross Revenues	Fees Paid	Gross Revenues	Fees Paid [1]	Gross ATM Revenues	Fees Paid [1]	Gross Revenues	Fees Paid
October '99	$ 73,525	$ 11,029	$ 122,593	$ 18,389	$ 29,516	$ 7,379	$ 86,664	$ 13,000
November	73,357	11,004	100,827	15,124	30,286	7,572	84,103	12,615
December	83,974	12,596	121,827	18,274	31,420	7,855	80,449	12,067
January	88,488	13,273	104,061	15,609	31,186	7,797	84,402	12,660
February	79,488	11,923	85,505	12,826	28,616	7,154	64,140	9,621
March	84,375	12,656	110,136	16,520	35,342	8,836	79,888	11,983
April	76,824	11,524	84,336	12,650	32,576	8,144	76,607	11,491
May	75,974	11,396	86,897	13,035	33,730	8,433	76,206	11,431
June	95,806	14,371	100,374	15,056	30,520	7,630	68,495	10,274
July	127,403	19,110	88,159	13,224	30,684	7,671	83,308	12,496
August	120,180	18,027	97,794	14,669	28,598	7,150	82,757	12,414
September '00	95,302	14,295	98,290	14,744	27,460	6,863	61,449	9,218
Total	$ 1,074,696	$ 161,204	$ 1,200,799	$ 180,120	$ 369,934	$ 92,484	$ 928,468	$ 139,270
Fees as % of Revenues [4]		15%		15%				15%
October '98 [2]	$ 97,564	$ 14,635	$ 107,545	$ 16,132	$ 2,715	$ 407	$ 73,900	$ 11,085
November	86,267	12,940	122,545	18,382	16,686	2,503	75,070	11,261
December	93,000	13,950	106,880	16,032	23,708	3,556	99,990	14,999
January	110,435	16,565	116,435	17,465	26,462	3,969	106,690	16,004
February	79,000	11,850	105,850	15,878	25,274	3,791	82,780	12,417
March	90,566	13,585	116,605	17,491	33,978	5,097	94,830	14,225
April	88,961	13,344	123,365	18,505	31,902	4,785	88,050	13,208
May	84,517	12,678	101,720	15,258	33,666	8,065	93,430	14,015
June	90,540	13,581	108,140	16,221	35,490	8,873	87,770	13,166
July	92,710	13,907	137,187	20,578	35,184	8,796	90,402	13,560
August	88,357	13,254	112,748	16,912	32,906	8,227	103,551	15,533
September '99	74,329	11,151	101,645	15,246	27,416	6,854	84,121	12,615
Total	$ 1,076,246	$ 161,440	$ 1,360,665	$ 204,100	$ 325,387	$ 64,923	$ 1,080,584	$ 162,088
Fees as % of Revenues [4]		15%		15%				15%

Note: Gross Prepaid Phone card revenues exclude sales tax; ATM revenues are non-taxable.

[1] 15% Fees due on Prepaid Phone card revenues and 25% Fees on ATM revenues.

[2] Effective October 1998, Communitel paid percentage fees of 15% on ATM revenues; effective June 1999 to date, the percentage fee increased to 25%.

[3] The prepaid phone vending operations were conducted under Ursus Telecom Corporation until LAE assumed operations effective April 1, 2002.

[4] Fees as a percentage of revenues were based on prepaid phone card revenues only.

Source: Annual Certified Report of Gross Revenues.

Communitel, Inc.
Balance Sheets (Tax Basis)
(Unaudited)

	As of December 31,		
	2000	**2001**	**2002**
Assets:			
Cash	$ 533,725	$ 302,477	$ 437,788
Trade notes and accounts receivable	1,052,700	1,560,821	1,213,796
Allowance for bad debts	-	-	(50,189)
Inventories	360,952	1,028,021	709,533
Other current assets	99,829	1,117,107	116,960
Buildings and other depreciable assets	378,529	493,296	457,615
Less accumulated depreciation	(146,395)	(204,427)	(198,899)
Other assets	19,626	19,626	77,788
Total assets	2,298,966	4,316,921	2,764,392
Liabilities:			
Accounts payable	2,319,591	3,993,551	1,369,367
Mortgages, notes, bonds payable in less than one year	6,326	282,436	444,385
Other current liabilities	-	4,875	85,213
Loans from shareholders	10,483	10,483	-
Mortgages, notes, bonds payable in one year or more	-	14,606	65,000
Total liabilities	2,336,400	4,305,951	1,963,965
Shareholders Equity:			
Capital stock	1,000	1,000	1,000
Additional paid-in capital	-	-	608,538
Retained earnings	(38,434)	9,970	191,039
Less cost of treasury stock	-	-	(150)
Total shareholders equity	(37,434)	10,970	800,427
Total liabilities and shareholders equity	$ 2,298,966	$ 4,316,921	$ 2,764,392

Source: U.S. Income Tax Return (Form 1120S)

Schedule IIA

Communitel, Inc.
Income Statements (Tax Basis)
(Unaudited)

	For the year ended December 31,		
	2000	**2001**	**2002**
Operating Revenues:			
Gross sales	$ 10,031,021	$ 11,156,739	$ 21,778,271
Cost of goods sold	8,449,422	9,699,015	19,711,977
Gross profit	1,581,599	1,457,724	2,066,294
Other Income:			
Net gain (loss) from sale of business property	-	-	(20,222)
Other income	-	20,518	36,532
Total other revenues	-	20,518	16,310
Total Income	1,581,599	1,478,242	2,082,604
Operating Expenses:			
Compensation of officers	359,800	410,555	198,750
Salaries and wages (less employment credits)	214,855	157,119	208,019
Repairs and maintenance	13,658	12,520	3,408
Bad debts	-	74,348	388,276
Rents	64,317	62,109	65,035
Taxes and licenses	38,031	35,874	51,933
Interest	2,361	25,905	22,722
Depreciation	53,010	58,032	63,545
Advertising	28,246	21,771	19,294
Employee benefit programs	21,872	24,424	2,000
Selling, general, administrative expenses	790,036	-	-
Automobile and Truck Expenses	-	32,804	28,758
Bank Charges	-	9,966	24,954
Commissions	-	35,556	130,591
Credit and Collection Costs	-	2,385	-
Delivery and Freight	-	12,188	-
Dues and Subscriptions	-	8,134	9,764
Equipment Rent	-	1,986	-
Insurance	-	11,625	52,178
Legal and Professional	-	26,493	96,870
Meals and Entertainment	-	225	4,951
Office Expense	-	13,852	69,398
Outside Services	-	-	58,090
Postage	-	1,479	-
Printing	-	169,239	-
Telephone	-	49,747	51,295
Travel	-	3,635	-
Utilities	-	6,473	6,684
Consulting Services	-	163,600	244,725
Data Processing Services	-	3,477	-
Meetings, Seminars and Trade Shows	-	37,917	54,898
Miscellaneous	-	1,517	-
Total Expenses	1,586,186	1,474,955	1,856,138
Net income/(loss)	$ (4,587)	$ 3,287	$ 226,466
Gross profit margin	15.77%	13.07%	9.49%

Latin American Enterprises, Inc.
Balance Sheet (Tax Basis)
(Unaudited)

	2002 [1]
Assets:	
Cash	$ 6,575
Trade notes and accounts receivable	55,440
Other current assets	-
Loans to shareholders	7,129
Buildings and other depreciable assets	520,204
Less accumulated depreciation	(407,480)
Other assets	303,207
Total assets	485,075
Liabilities:	
Accounts payable	287,500
Mortgages, notes, bonds payable in less than one year	54,884
Other current liabilities	527,630
Loans from shareholders	429,549
Mortgages, notes, bonds payable in one year or more	129,332
Other liabilities	-
Total liabilities	1,428,895
Shareholders Equity:	
Capital stock	918
Additional paid-in capital	515,714
Retained earnings	(1,460,452)
Total shareholders equity	(943,820)
Total liabilities and shareholders equity	$ 485,075

Source: U.S. Corporation Income Tax Returns (1120 & 1120S).

Note:

[1] Income Tax Returns filed under Ursus Telecom Corporation for the two years ended March 31, 2002 are not presented. Effective April 2002, Latin American Enterprises assumed operations; therefore reported financial information presented is for the nine months ended December 31, 2002.

Schedule IIB

Latin American Enterprises, Inc.
Income Statement (Tax Basis)
(Unaudited)

		2002 [1]
Operating Revenues:		
Gross sales	$	2,574,202
Cost of goods sold		1,540,191
Gross profit		1,034,011
Other Income:		
Interest and other income		-
Total Income		1,034,011
Operating Expenses:		
Compensation of officers		115,385
Salaries and wages (less employment credits)		601,050
Repairs and maintenance		11,978
Bad debts		-
Rents		84,280
Taxes and licenses		86,229
Interest		18,189
Depreciation		55,599
Commissions		-
Other expenses		-
Selling, general, administrative expenses		376,299
Total expenses		1,349,009
Net income/(loss)	$	(314,998)
Gross profit margin		40.17%

[1] For Note explanation, refer to page 1 of 2.

41

Schedule IIC

WTN, Inc.
Balance Sheets (Tax Basis)
(Unaudited)

	As of March 31,		
	2001	**2002**	**2003**
Assets:			
Cash	$ 32,006	$ 19,172	$ 42,241
Other current assets	42,000	42,000	42,000
Other investments	7,368	6,606	6,375
Total assets	81,374	67,778	90,616
Liabilities:			
Other current liabilities	12,000	2,594	2,594
Total liabilities	12,000	2,594	2,594
Shareholders Equity:			
Capital stock - Common stock	200	200	200
Retained earnings - Unappropriated	75,910	72,203	95,368
Adjustments to shareholders equity	(6,736)	(7,219)	(7,546)
Total shareholders equity	69,374	65,184	88,022
Total liabilities and shareholders equity	$ 81,374	$ 67,778	$ 90,616

Source: U.S. Corporation Income Tax Return (Form 1120)

WTN, Inc.
Income Statements (Tax Basis)
(Unaudited)

	For the year ended March 31, 2001	2002	2003
Operating Revenues:			
Gross sales	$ 2,654,140	$ 1,663,250	$ 1,146,946
Cost of goods sold	(1,309,362)	(745,388)	(456,471)
Gross profit	1,344,778	917,862	690,475
Other Income:			
Dividends and other income	16,520	22	733
Total other revenues	16,520	22	733
Total Income	1,361,298	917,884	691,208
Operating Expenses:			
Compensation of officers	235,500	185,250	149,625
Salaries and wages (less employment credits)	102,000	84,000	56,000
Repair Maintenance	2,800	-	-
Rents	22,500	25,500	19,200
Taxes and licenses	54,619	25,644	25,161
Advertising, Samples & Sales Expense	6,080	3,853	1,608
Employee benefit programs	14,614	2,060	-
Accounting	12,500	11,200	9,600
Auto expense	19,176	24,753	14,379
Miscellaneous	4,262	182	1,181
Commission & override to MDAD	522,372	345,062	246,307
Consulting fees	33,000	-	-
Delivery/freight	13,856	9,996	12,491
Insurance	15,970	17,453	13,636
Legal fees	45,387	20,758	7,817
Marketing & Mgmt. Services	119,559	88,606	64,844
Office expense	13,040	2,951	4,214
Stationery & printing	12,854	5,042	3,218
Telephone	16,691	15,837	13,804
Travel costs	38,821	36,051	43,289
Total expenses	1,305,601	904,198	686,374
Net income/(loss)	$ 55,697	$ 13,686	$ 4,834
Gross profit margin	50.67%	55.18%	60.20%

Miami Dade Aviation Department
Prepaid Phone Card Vending Permit
Results of Attribute Testing

Summary of Machines without MDAD Identification Numbers

Permittee	Machine	Location	Landmark
Communitel			
	208752	Concourse D 2nd floor	Near American Airlines Service Center
	213532	Terminal D & E 2nd floor	Across American Airlines Service Center
	208782	Terminal H 2nd floor	Across from U.S. Airways
	212672	Terminal C 3rd floor	In front of payphones
	215182	Terminal C 1st floor	Next to Hertz-Royal rental counters
	208772	Terminal E 1st floor	Across from escalators
	ATM	Concourse D 2nd floor	Near American Airlines Service Center
	ATM	Terminal D 2nd floor	Across from Burger King restaurant
	ATM	Concourse E Satellite 3rd floor	Next to newsstand
	ATM	Terminal G 2nd floor	Across from Northwest Airlines Counter
	ATM	Terminal H 2nd floor	Across from Delta Airlines Counter
	ATM	Terminal D 2nd floor	Facing entrance to Concourse D
LAE			
	V5135	Terminal D & E 1st floor	Across from Thrifty & National Rent-a Car
WTN			
	1A	Terminal C 2nd floor	Next to escalators and payphones
	25	Terminal E 2nd floor	Across from Lost and Found
	20	Terminal E & F 2nd floor	Across from Alitalia Airlines
	03	Terminal E 1st floor	Across Concourse E waiting area
	24	Terminal E 1st floor	Next to payphones
	11	Terminal E 2nd floor	Across from Ice Cream shop
	05	Terminal E 2nd floor	Across from American Eagle Airline

Summary of Machines Found Unplugged

Permittee	Machine	Location	Landmark
LAE			
	V5241	Terminal F 2nd floor	Across from Pharmacy
	V5294	Teminal E 1st floor	Across from payphones, behind elevators
	V5028	Concourse E 2nd floor	Opposite Gate E-8
WTN			
	19	Terminal D 2nd floor	Near Pharmacy
	13	Concourse E 2nd floor	Across from Duty Free Store
	11	Terminal E 2nd floor	Across from Ice Cream shop

Miami Dade Aviation Department
Prepaid Phone Card Vending Permit
Results of Attribute Testing
Summary of Machines with Expired or No License Decals

Permittee	Machine	Location	Condition
Communitel [1]			
	213502	Terminal C 2nd floor near pictures	No decal
	213542	Terminal C 2nd floor near ATM machine	No decal
	208762	Terminal E 2nd floor, American Eagle	Expired 9/30/01
	ATM	Terminal D 2nd floor	No decal
LAE [2]			
	V5027	Terminal D 2nd floor behind elevators	No decal
	V5014	Concourse F 2nd floor across Gate F-15	Expired 9/30/01
	V5024	Terminal E & F 2nd floor, Air Jamaica Counter	Expired 9/30/02
	V5008	Terminal C 2nd floor, Currency Exchange	Expired 9/30/02
	V5011	Concourse E Satellite 3rd floor	Expired 9/30/03
	V5021	Concourse C 2nd floor across Gate C-5	Expired 9/30/03
	V5022	Concourse D 2nd floor, American Airlines	Expired 9/30/03
	V5017	Terminal D & E 2nd floor near Men's Shop	Expired 9/30/03
	V5037	Concourse C 2nd floor across Gate C-7	Expired 9/30/03
	V5015	Terminal D 2nd floor next to Pharmacy	Expired 9/30/03
	V5133	Terminal E & F 2nd floor across AeroMexico	Expired 9/30/03
	V5206	Terminal F 2nd floor across Sbarro Eatery	Expired 9/30/03
	V5241	Terminal F 2nd floor across Pharmacy	Expired 9/30/03
	V5035	Terminal C 2nd floor near Cc-D entrance	Expired 9/30/03
	V5127	Terminal C 2nd floor, Currency Exchange	Expired 9/30/03
	V5293	Terminal C 2nd floor, Terminal Directory	Expired 9/30/03
	V5296	Terminal C 2nd floor, near Bacardi sign	Expired 9/30/03
	V5215	Terminal B 2nd floor, Baggage Claim	Expired 9/30/03
	V5025	Terminal B 2nd floor, TACA Counter	Expired 9/30/03
	V5040	Terminal E 1st floor west of payphones	Expired 9/30/03
	V5294	Terminal E 1st floor east of payphones	Expired 9/30/03
	V5124	Concourse E 2nd floor next to Pizza Hut	Expired 9/30/03
	V5031	Terminal E 2nd floor across Beauty Salon	Expired 9/30/03
	V5018	Terminal E 2nd floor across Ice Cream shop	Expired 9/30/03
	V5054	Terminal E 2nd floor, American Eagle	Expired 9/30/03
WTN [3]			
	1A	Terminal C 2nd floor next to escalators	No decal
	10	Terminal D 2nd floor, Currency Exchange	No decal
	05	Terminal E 2nd floor, American Eagle	No decal
	11	Terminal E 2nd floor, Ice Cream shop	Expired 9/30/03
	21	Concourse A 2nd floor near Gate A-25	Expired 9/30/03

[1] Communitel has corrected the occupational license deficiency, effective July 16, 2004.

[2] According to the Miami-Dade County Tax Collector's Office, LAE paid the license fee along with late fees in December 2003, but the decals were returned by the post office. On August 8, 2004, LEA received the lost decals.

[3] WTN furnished AMS copies of the missing decals on June 30, 2004, and placed copies of the decals on the machines pending receipt of replacement decals from the Miami-Dade County Tax Collector's Office.

Miami Dade Aviation Department
Prepaid Phone Card Vending Permit
Results of Attribute Testing

Summary of Relocated Machines

Permittee	Machine	Found at an Unauthorized Location	Authorized Location per Permit[2]	Permit Reference
Communitel				
	208762	Terminal E 2nd floor near American Eagle	Concourse D 2nd floor near Gate D-16 [1]	3D2935
	213522	Concourse B 2nd floor near Gate B-2 sign	Concourse B 2nd floor near airport entrance	6B2906
	215172	Concourse B 2nd floor near Versailles	Concourse B 3rd floor, Customs Area	6B3900
LAE				
	V5037	Concourse C 2nd floor near Gate C-7	Concourse D 2nd floor near Gate D-14 [1]	6D2928
	V5015	Terminal D 2nd floor near Pharmacy	Terminal D 2nd floor near La Carreta Restaurant	6D2900
	V5031	Terminal E 2nd floor near Beauty Salon	Concourse E 2nd floor near Newsstand	6E2942
	V5022	37 feet northeast from authorized location	Concourse D 2nd floor near Departure Lounge	6D2927
	V5027	57 feet north from authorized location	Terminal D 2nd floor near Money Exchange Booth	6D2901
	V5025	66 feet east from authorized location	Terminal B 2nd floor near TACA Airlines	6B2901
WTN				
	07	143 feet east from authorized location	Concourse C 2nd floor across from snack bar	6C2920
	04	29 feet north from authorized location	Concourse B 2nd floor across from Gate B-3 sign	6B2915
	23	222 feet southeast from authorized location	Concourse B 2nd floor next to Versailles	6B2799
	22	Concourse D 2nd floor next to Gate D-32	Concourse D 2nd floor near Gate D-9 [1]	6D2923
	21	Concourse A 2nd floor near Gate A-25	Concourse D 2nd floor near Gate D-15 [1]	6D2929
	9	Concourse A 2nd floor by Gate A-22,24,25,26 sign	Concourse D 2nd floor near Gate D-20 [1]	6D2930
	19	Terminal D 2nd floor near Pharmacy	Concourse C 1st floor near Baggage Claim	6C1900
	17	Concourse E 2nd floor by Gate E-11	Concourse E 2nd floor near Gate E-7	6E2935
	18	Concourse B 2nd floor in front of Gate B-7 sign	No designated exhibit/location identified in permit	-

[1] *Permit location references do not exist due to concourse reconstruction. No assignment updates were found.*

[2] *Column identifies authorized machine locations per the permit, but no machines were found.*

ATTACHMENT I

Biscayne Building
19 West Flagler Street, Suite 220
Miami, FL 33130
Phone (305) 375-1946
Fax (305) 579-2656
www.MiamiDadeIG.org

Office of the Inspector General

Miami-Dade County

Memorandum

To: Honorable Alex Penelas, Mayor

Honorable Chairperson, Barbara Carey-Shuler, Ed.D
and Members, Board of County Commissioners

From: Christopher Mazzella
Inspector General

Date: December 10, 2003

Re: Updated Review of Prepaid Phone Card Vending Permits at Miami International Airport (MIA) and Review of the Current Invitation to Bid for Non-exclusive Prepaid Phone Card Vending Machines at Miami International Airport

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By way of background, on July 8, 2003, Agenda Item 7A1E[1], a recommendation to award the above-captioned contract, was presented to the Board of County Commissioners (BCC) for approval. A bid protest of the presented recommendation for award was pending, and thus, the agenda item also contained a clause seeking approval to waive further bid protest procedures by a two-thirds vote of the commissioners present.

By way of Supplemental Agenda Item 7A1E, the BCC was also presented with copies of the OIG's previous final report, dated August 15, 2001, regarding the limited test permits for prepaid phone card vending, the Miami-Dade Aviation Department's response to the draft version of that same report and the OIG's supplemental report, dated January 28, 2002, on the same matter. The cover memo for the Supplemental Agenda Item contained a breakdown of the gross reported revenues of the three current permittees. The three current permittees are also the first, second and third ranked bidders by price in the invitation to bid for the contract destined to replace the current permits.

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[1] The agenda item sought BCC approval, in essence, to award the prepaid phone card contract to the highest bidder (first ranked as it is a revenue generating contract to the County) and set forth a three working day deadline for that vendor to execute the contract. Should the highest bidder fail to execute the contract within the established time period, the contract would then be presented to the next vendor in line with the same time deadlines for contract execution.

The BCC did not pass by two-thirds vote the portion of the resolution seeking to set aside the current bid protest process, and thus the recommendation to award was not deliberated upon. There was, however, a brief discussion of the OIG's previous findings and recommendations, and it was asked that the OIG provide the BCC with an updated review of this matter. This memorandum seeks to provide such an update.

Attached, as Schedule A, is a spreadsheet containing the OIG's findings and recommendations from its previous two reports and MDAD's responses. In the far right column of the spreadsheet are comments as to the current state of affairs and how the current proposed contract provisions further address the issue.

The remainder of this memorandum identifies several areas that may be of interest to this Board.

CALLS FOR AUDITS

In its draft phone card report dated August 2, 2001, provided to MDAD for comment, the OIG recommended that MDAD conduct an audit of the three phone card vendors providing prepaid phone cards at MIA. MDAD disagreed with this recommendation stating:

> "As a matter of procedure, and within the Terms and Conditions of the existing Permit document, the year-end audit will continue to be performed. The firms have submitted annual audits to the Department in accordance with the requirements of the Permit."

In light of the Department's response that stressed its need for flexibility in the execution and performance under the test permits, the OIG's final report dated August 15, 2001 reiterated the audit recommendation. The OIG was concerned over the lack of documentation regarding the number and placement of the machines and overall controls regulating the introduction of machines on the airport premises.[2]

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[2] A MDAD letter to one of the permittees, dated July 9, 2001, states: "The Department's records do not reflect authorization to increase the total number of devices from 22 in 1999 to 31 in 2001. Kindly provide this office with documentation to that effect or [indicate] which 9 devices you will eliminate..." A MDAD internal hand written note clipped to the letter acknowledges this ongoing dilemma regarding the department's management, or lack of management, over the prepaid phone cards. It reads: "In response to your question about how many [devices] are authorized? For the 2 years that I have been with this group, we have been reluctant to determine exactly what # of prepaid phone cards should be at MIA. This reluctance is what has caused the exponential growth of the devices. I am preparing less locations with the help of facilities to be approved by A.G. and incorporated into their permit. Even before they requested permission from Angela, Communitel increase[d] the number of machines, disregarding Department approval. We should consider reducing the uncontrollable amount of these devices that today clutter our building."

At the BCC hearing of July 8, 2003, it was suggested that the OIG conduct an audit of the fees reported by the vendors to MDAD under the terms of their permits. It was also questioned why the company that had generated the most revenue in the last few years was not being recommended for award of this contract, thus reinforcing the call to conduct an audit. The OIG has thoroughly reviewed this proposed task and respectfully disagrees with the suggestion to conduct an audit of the present permittees for the reasons discussed below.

First, the original recommendation for an audit was primarily based on the lack of documentation governing the number and placement of the machines at MIA. The original report noted no correlation to the number of machines scattered throughout the terminal to documentation in the file authorizing their placement. The accurate reporting of gross revenues is tied to actual number of devices in operation at any given time. **To conduct this audit, as a baseline, one would need to know the actual number of machines (as opposed to reported number of machines) in operation at a given time. Given the history of poor record keeping by the Department and the unauthorized increase of machines by the permittees, an audit by the OIG to provide assurances of correct gross revenues exceeding those certified by the Certified Public Accountant would be an impracticable task.**

The OIG does note that since its original report, the documentation in the file has significantly improved, and under the current permits the number and placement of the machines is better regulated by the Department. Additionally, gross revenues are directly tied to the number of cards dispensed by each vendor, and the dollar value of the phone card itself, e.g. $10 or $20 prepaid phone card. The OIG's review of the vendors' monthly revenue reports reveals that there is no uniformity in the manner in which the vendors report their grossly monthly revenues. For example, one vendor's report breaks down the number of phone cards dispensed by each machine for each day of the month and by the face dollar value of the phone card. The two other vendors only state the gross revenue collected by each machine for the entire month, without specificity to the value of the cards dispensed, e.g., X number of $10 cards and X number of $20 cards. This type of information is extremely beneficial for reporting purposes, but was not required as part of the monthly report under the permits. The Department should consider requiring the reporting of this type of specific information.

In line with this type of reporting, the OIG also included in its original set of recommendations that MDAD require each device to be equipped with an activity register, which would record the amount of services rendered by each machine. This type of activity register could then be produced for inspection to spot check the reported amount of services rendered by each machine to the reported amount by the vendor in its monthly gross revenue report. An activity register would significantly facilitate the ease of conducting random spot revenue audits to ensure accurate reporting. MDAD responded positively to this recommendation and a review of the currently proposed contract provisions does contain this requirement.[3]

As for the actual reporting of monthly gross revenues and the required submission of an annual audit under the current permits, the OIG notes the requirement of a certification by a Certified Public Accountant as to the correct gross revenues per month and for the year under audit. Each of the vendor's annual audits submitted to the County contained a certification stating:

> "We conducted an audit in accordance with generally acceptable auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Gross Revenues and Percentage Fees Paid to the County is free of material misstatement. ***An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the schedule.*** An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion." (Emphasis added.)

The OIG recognizes that the testing conducted under these audits may only be of a sample of all transactions. However, under the auditing standards, the sample being tested must be of quantity and quality sufficient for the Certified Public Accountant to render a professional opinion that the Schedule of Gross Revenues presents fairly, in all material respects, the gross revenues of the vendor. While the Department could have conducted its own audit, or may have reviewed the work papers of the Certified Public Account in lieu of conducting its own audit, it did not.

The OIG's recommendation is from over two years and two permits ago.[4] After a thorough assessment of the matter, the OIG does not feel that the same imperative need for an

[3] See Article 3.14 Additional Reports of the proposed agreement, which states in full: "The Successful Bidder will be required to provide electronic record of all transactions by location, by machine, for accounting and auditing purposes. The Prepaid Phone Card Vending Machines must generate printed revenue reports as requested by the Department. The manufacturer of the vending machines must provide a certificate verifying that the revenue mechanism creating the reports is tamperproof. Any evidence of tampering may lead to termination of the Agreement. Only a certified company technician may have access to the accounting system and must notify the Department before servicing or repairing any part of the machine that produces access to the accounting system. *A copy of the transaction report or similar information will need to be submitted with the concessionaires' monthly payment for verification.* The Department will have the right to inspect the prepaid phone card vending system and to audit the concessionaire at any time." (Emphasis added.)

independent audit exists today against the backdrop of an impending recommended contract award. Absent any credible allegation of underreporting of revenues or identified lack of internal control, which may directly affect the accuracy of reported gross revenues, the time and expense to conduct such a historical audit is outweighed by the lack of beneficial information that it could produce. At best, it could provide insight of better management practices to be implemented in the future. However, the current proposed Agreement incorporates practically all of the OIG's previous recommendations from the first report and addresses the findings made in our supplemental report of January 2002. (See attached Schedule A.) For example, the machines under the new Agreement are required to have printable activity registers, as discussed above. Furthermore, the new Certified Public Accountant's annual audit must also contain two additional certifications not required under the current permits. These two additional certifications relate to material weaknesses of the internal control structure[5] and compliance with the term of the Lease and Concession Agreement.[6] The OIG believes these two additional annual certification requirements combined with required submission of the printed monthly activity register with the monthly schedule of gross revenues, provide heightened assurances to the County that the vendor's operations are in compliance with the terms of the Agreement.

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[4] The permits under review in the OIG's original report were, PX 500, PX 506 and PX 507. They have since been replaced with permits PXs 828, 829 and 830, which were again replaced with the current set of permits PXs 889, 890 and 891.

[5] See Exhibit G, page 1 of 4 of the Form of Lease & Concession Agreement for the Prepaid Phone Card Vending Machines, which states in part: "We considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the Schedule of Gross Revenues and Percentage Fees Paid to the County and not to provide assurance on the internal control structure. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level of risk that errors or irregularities in amounts that would be material in relation to the Schedule of Gross Revenues and Percentage Fees Paid to the County being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above." See also Article 3.11 of the Agreement, which requires in part: "The report shall also be accompanied by a management letter, which will contain the findings discovered during the course of the examination, such as recommendations to improve accounting procedures, revenue and internal controls, as well as significant matters under the Agreement."

[6] See Exhibit G, page 3 of 4 of the Form of Lease & Concession Agreement for the Prepaid Phone Card Vending Machines, which states in part: "In connection with our audit, nothing came to our attention that caused us to believe that XYZ Corporation failed to comply with the term of the Lease and Concession Agreement with Miami-Dade County, Florida, insofar as they relate to the Company's books of accounts and reports. However, out audit was not directed primarily toward obtaining knowledge of such non-compliance."

Most importantly, the suggestion to audit the current permittees does not advance the current recommendation to award this contract. The revenues to the County to be generated by the new Agreement are based on the tendered minimum annual guaranteed fees proposed by each bidding vendor in response to the County's Invitation to Bid (ITB) in addition to a percentage of gross revenues exceeding the minimum guaranteed amount. The ITB process also sets objective standards of minimum qualifications, which must be met by each bidder prior to the revealing of that bidder's bid amount. The ITB also lends itself to maximize the County's potential for revenue generation by, in effect, declaring that the highest bid wins. Past performance, gauged by earnings and revenues generated under the previous or current MIA permits or under operation at any airport of other venue, is not a factor under the ITB, nor should it be. How well a vendor performed under a different set of circumstances, e.g. number and placement of machines, direct competition among other prepaid phone card machine vendors and operational venue, such an airport, seaport or shopping mall, should not be used as barometer to measure the vendor's potential gross revenues under the terms of the new Agreement.

ANNUAL AUDITS SUBMITTED BY THE THREE CURRENT PERMITTEES

The OIG reviewed the annual audits submitted by the three permittees in accordance with their permits. For WTN, the OIG reviewed reports covering 38 consecutive months of operation from September 1999 to October 2002. No exceptions were noted by the Certified Public Accountant, and for all 38 months the Certified Public Accountant opined that the schedule of gross revenue presented fairly, in all material respects, the gross revenue of WTN for the period being audited.

For Communitel, the OIG reviewed reports covering 48 consecutive months of operation from September 1998 to August 2002. No exceptions were noted by the Certified Public Accountant, and for all 48 months the Certified Public Accountant opined that the schedule of gross revenue presented fairly, in all material respects, the gross revenue of Communitel for the period being audited.[7]

For Latin American Enterprise, Inc. (LAE), the OIG reviewed reports covering 62 consecutive months of operation from July 1998 to April 21, 2003.[8] No exceptions were noted by the Certified Public Accountant, and for all 62 months the Certified Public Accountant opined that the schedule of gross revenue presented fairly, in all material respects, the gross revenue of LAE for the period being audited.

For both Communitel and LAE, the OIG found that both had been delinquent in submitting their annual audits to MDAD. On August 4, 2003, MDAD sent two letters to both

[7] Communitel's CPA did note an overpayment of $1,044 for the period ending August 2002.

[8] Last date of permit. A new permit including a minimum annual guarantee became effective April 22, 2003.

Communitel and LAE advising them that they had failed to submit their last year's audit for the year ending October 31, 2002, and an audit for the period November 2002 through April 21, 2003. MDAD received Communitel's delinquent report for the year ending August 13, 2002 on September 12, 2003. Communitel advised that it would provide the next full year's audit (September 2002 through August 2003) to MDAD by November 15, 2003. At present, the OIG has not been able to confirm the receipt of this pending annual audit. MDAD received LAE's delinquent report on September 19, 2003.

PHYSICAL INVENTORIES OF PHONE CARD VENDING MACHINES

The OIG's first report on this subject stressed that there were no controls regarding the actual number and placement of machines scattered throughout the airport. A significant portion of the OIG's review included conducting an actual inventory of the number of machines and their location at the airport. As of July 2001, the OIG count showed that Communitel had 25 machines; LAE had 29 machines; and WTN had 23 machines.

As of January 2002, as part of the OIG's supplemental report, we counted LAE having 27 machines, WTN having 27 machines, and Communitel having 26 machines (20 phone card and 6 ATM/phone card combination devices). As a procedure to curb the proliferation of unauthorized machines and the unauthorized moving of machines, the OIG recommended a policy to affix MDAD decals on each device. This would assist in tracking the number and placement of machines.

MDAD, in its response dated February 14, 2002, stated that it would implement the decal identification for the machines. In a follow-up response dated July 18, 2002, MDAD stated that the decals were to be affixed shortly and that "a complete inventory of machines and their occupational license decals [would be] conducted on July 25 and 26, 2002."

As part of our update for this memorandum, the OIG reviewed MDAD operations to ensure that the department-initiated inventories were conducted. The OIG requested documentation for all inventories conducted by MDAD including checklists, work papers and notes evidencing compliance. According to MDAD documentation, inventories were performed in June 2002, May 2003, July 2003 and October 2003.

The objective of the July 2003 inventory was to physically inspect all prepaid phone card machines and ATM machines (ATM machines under Communitel's permit PX 890), verify that the machines had their MDAD ID# and occupational licenses, verify the location of each machine, and examine the condition of the machine.

The OIG's examination of the July 2003 inventory tabulations revealed that there were a total of 75 devices counted.

WTN - 26 LAE - 25 Communitel - 24 (22 phone cards and 2 ATMs)

These are less than the number of machines allowed under the permit, which may suggest that not all of the machines were located and/or the permittees have less than the authorized number of devices on the premises. Inventory results of the 75 machines located show that seven (7) devices had no occupational licenses and one machine's license had expired. Additionally, nine (9) machines did not have the proper MDAD decal affixed to the machine.

The OIG was advised that as of October 2003, MDAD conducted a new physical inventory complete with photographs of the machines and their licenses, decals and other identifying insignia.

In assessing whether the number of devices exceeds the allowable number under the permit, it is imperative that all the machines are actually counted. Operating more devices than authorized may result in the under reporting of revenues to the County.

OIG representatives met with MDAD's new manager of its Commercial Operations Division. We were advised that new measures have been recently implemented to facilitate a better flow of communication between the Department and its airport tenants. These tenant meetings take place both with groups of tenants and with individual tenants, one-on-one, to address any issues or exceptions specific to that tenant's contract/lease.

We were also provided with a new form to be utilized by MDAD staff for future phone card inventories. This standard form entitled *Telephone Prepaid Cards Compliance Inspection Program* prescribes four (4) inventory objectives and several steps to complete the inventory. These four objectives are: (1) Compliance with County policy, (2) Propriety of billings, compliance with permit terms and County and Aviation policy, (3) Documentation of exceptions and (4) Timely reporting and review.

The OIG believes that the implementation of this new standardized form will greatly improve the Department's management of the Agreement through routine inventories.

ATM MACHINES PIGGY-BACKED ON THE PREPAID PHONE CARD PERMITS

As noted in its original report, the OIG found that one of the three vendors was authorized to install several ATM/prepaid phone card combo devices as part of its permit. This authority was granted only[9] to Communitel and was considered a modification to its original permit PX 506. Subsequently, the ATM authorization was incorporated into Communitel's

[9] Neither WTN nor LAE have authorization for ATM units under their permits. The OIG did find a letter from WTN, dated April 29, 2003, in the MDAD files requesting authorization to install ATMs under similar conditions to Communitel's permit. While a response by MDAD to this request was not found, it appears that the request was denied as WTN does not have ATMs.

permit PX 830, effective November 1, 2002 through April 21, 2003, for the installation of five (5) ATM/phone card machines.[10] Under the current permit, PX 890, the number of ATM/phone card devices was increased to a total of six (6) machines in addition to the 22 prepaid phone card machines authorized under the permit.

While the original documentation in the file depicts the authorization for ATM/phone card combination devices as part of the testing environment under the test permits, MDAD's own documentation from 1999, as previously reported by the OIG, questioned whether these devices were operating as combination devices. The OIG recently examined several of the Communitel ATM devices and observed that they are not combination devices but stand-alone ATM machines. In any event, upon execution of the new Agreement, MDAD should require the removal of the six ATM permits authorized under PX 890. To allow continued placement of these ATMs would "circumvent the bidding process for ATM services."[11]

ALLEGATIONS OF IMPROPER FINANCIAL TRANSACTIONS ARE UNFOUNDED

During the course of this review, the OIG was informed of certain allegations, that on its face suggested improper financial transactions between the principal of one of the bidders, Mr. Juan Jose Pino, President of Latin American Enterprises, and a certain individual named Juan Mario Junco del Pino, Minister of Construction, Cuba.[12] This information appeared within Merrill Lynch Payment History Detail documents of Mr. Pino's, and was reviewed by the OIG in light of this serious accusation. The history details, five in total, seem to indicate possible wire transfers of funds from the LAE account to Juan Mario Junco del Pino. OIG Special Agents met with Mr. Juan Jose Pino and asked him about these documents. Mr. Pino said that he had contacted Merrill Lynch about these same concerns. A Ms. Katy Ross of Merrill Lynch explained to Mr. Pino that the information contained on the Payment History Detail pertaining to the named individual Juan Mario del Pino, Minister of Construction, Cuba, was a Merrill Lynch internal security warning that appears on the document due to the name similarities. The security warning appears because Merrill Lynch does not allow wire transfers to certain prohibited persons.

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[10] While only five (5) machines were authorized, correspondence in MDAD Commercial Operation's file for Communitel acknowledges that even under PX 830, Communitel had six (6) ATM machines in operation.

[11] MDAD letter dated September 23, 1999 regarding Communitel's ATM/phone card combination devices where it is discussed that since the phone card component had not been added to the ATM equipment, it would appear to have been a means to circumvent the bidding process for ATM services. The letter was previously referenced in the OIG's original report of August 15, 2001.

[12] This information was independently obtained by the OIG. Subsequently, the OIG was provided with the same allegation by another bidder for the prepaid phone card contract. The documents provided to the OIG are copies of the same documents obtained by the OIG.

During the OIG's meeting, Mr. Pino produced two letters confirming the above explanation. The letters were signed by Ms. Katy Ross, Assistant Vice President, Administrative Manager. The letters confirm that the wire transfers did not go to the Cuban official, but instead went to Mr. Pino's account at Nations Bank of Florida. The letter also advised that "Merrill Lynch's system identifies similar names of individuals with whom we are prohibited from doing business." In the presence of the OIG's Special Agents, Mr. Pino placed a call to the Merrill Lynch offices. Ms. Ross was put on speakerphone and the OIG Special Agents confirmed with her that the name appearing on the Payment History Detail was simply a security warning. No improper transactions took place. The allegations are unfounded.

FINAL RECOMMENDATION OF THE HEARING EXAMINER

During the course of this procurement process, certain allegations relating to the bidders of this contract have been raised to the OIG. On several separate issues the OIG has been presented with information, perhaps in the hope that this office would further investigate the allegations. Regarding two issues, in particular, the same allegation was raised in the pleadings of a filed bid protest. These were an allegation regarding the Disadvantaged Business Enterprise (DBE) certification of Blackstar LLC and an allegation regarding the weak financial condition of LAE. Both of these allegations were flushed out during the bid protest hearings and the OIG does not find any credible need to further investigate this matter.

Regarding LAE's financial condition, this was addressed in both bid protest hearings. The second hearing examiner acknowledged the previous finding of the first hearing examiner concluding that there was no evidence to find that LAE is not financially responsible or is on the verge of bankruptcy. The second hearing examiner concludes that: "because the issue was fully litigated before Judge Feiler [first hearing examiner], and based on the findings made by Judge Feiler, Communitel is estopped from maintaining a protest on these grounds based on the doctrine of Res Judicata and Collateral Estoppel, absent evidence of fraud, arbitrary acts, illegality or dishonesty." (Findings of Fact, Conclusions of Law and Recommendations of Hearing Examiner, filed with the Clerk of the Board, October 5, 2003, pages 18-19, hereinafter "Second Recommendation of the Hearing Examiner.")

Within the Second Recommendation of the Hearing Examiner are two references to the OIG. The first directly follows from the passage cited above. "Thus it is my expectation in upholding this award to LAE that the Manager and County Commission will balance this decision against the findings of the currently in progress Inspector General's audit of the respective permit holders."

A representative of the OIG was present during the hearing. No evidence or testimony was tendered suggesting that an audit was in progress. Only the video footage of the July 8, 2003 agenda hearing was made part of the record. Additionally, the above passage seems to suggest that the OIG's audit of the respective permit holders would include an examination of the companies' financial condition as it relates to their responsibleness. Even if the OIG had chosen to conduct an audit, it would not have been a financial audit of companies.

In this conclusion, the hearing examiner states: "Therefore, it is the recommendation of the undersigned that the County Manger's recommendation of award to LAE be upheld, and accepted by the County Commission, **provided that there is no evidence to the contrary in the Inspector Generals audit / report.**" (Second Recommendation of the Hearing Examiner, p. 20. Emphasis in original.)

This OIG memorandum is not intended to validate or provide arguments against the County Manager's recommendation for award. Its sole purpose is to provide this Board with an update of previously reported issues regarding prepaid phone card vending machines at Miami International Airport.

The OIG's number one recommendation was that the expired test permits be replaced by a competitively bidded contract. The Department concurred and an Invitation to Bid on a new prepaid phone card vending machines agreement was advertised on June 6, 2002. As synthesized in the accompanying Schedule A, the OIG is quite satisfied with MDAD's redress of our findings, recommendations and concerns. As the mechanisms to implement many of these new procedures is contained in the new Agreement, the OIG assures this Commission, that once executed, the OIG will continue to monitor the Agreement and compliance with its terms.

Finally, I want to emphasize that my office is satisfied with the process undertaken by the airport and the county manager in recommending the award of this contract to the highest bidder. Unfortunately, a process that has been transparent, fair and comprehensive is being undermined by questionable tactics that have included the circulation of divisive and misleading allegations of impropriety directed at the highest bidder. These tactics have caused an unnecessary delay in awarding this contract, not to mention the resultant costly burden placed on county staff. Consequently, it is my hope that the Commission will move swiftly in awarding this contract according to the Manager's recommendation to the highest bidder.

CC: Robert A. Ginsburg, County Attorney
George Burgess, County Manager
Bill Johnson, Assistant County Manager
Angela Gittens, Director, Miami-Dade Aviation Department

Clerk of the Board (copy filed)

SCHEDULE A
OIG FINDINGS AND RECOMMENDATIONS

OIG Finding & Recommendations	MDAD Response	OIG Comments New Contract Provisions, Etc.
1. The expired test permits for phone card vending should be replaced by a contract that will be competitively bid. *(From the OIG's draft report, dated August 2, 2001 and reiterated in the final report dated August 15, 2001.)*	The solicitation document is currently being prepared. It has always been the intention of the Department to competitively bid this service as is evidenced by the different iterations of the solicitation packages over a five-year period. *(From MDAD's response, dated August 9, 2001, to the OIG draft report.)*	Invitation To Bid for the Prepaid Phone Card Vending Machines, Bid No. MDAD0003, advertised June 6, 2003. Previously scheduled for contract award on January 21, 2003 – withdrawn due to pending bid protest. Subsequently rescheduled for contract award on July 8, 2003. Motion to waive bid protest procedures failed, matter withdrawn due to pending bid protest. Currently scheduled for contract award on December 16, 2003.
2. Adequate controls should be implemented to prevent machines from appearing on Airport premises without the written authorization of Aviation Department staff. *(From the OIG's draft report, dated August 2, 2001 and reiterated in the final report dated August 15, 2001.)* 58	The Department has been working on a new placement plan for the existing phone card vending devices in order to clean-up the Terminal. We have met with the vendors to discuss their operations and the placement of the machines. These new locations will be incorporated into a new interim Permit that will be issued in order to bridge the period between the existing operations and the issuance and award of a new concession agreement. The vending sites will be reduced based on policy and experience and will be strictly enforced. *(From MDAD's response, dated August 9, 2001, to the OIG draft report.)*	OIG comment: The OIG has observed that since our first report in August 2001, MDAD's paperwork has significantly improved and the subsequently issued permits did attach a more complete site plan. The reduction in the overall number of machines is evident in the new proposed Agreement, which sets the number of devices at 37.
3. Specific locations of placement should be adhered to. The actual placement of vending equipment should correspond to the pre-determined locations reflected in the agreement. *(From the OIG's draft report, dated August 2, 2001 and reiterated in the final report dated August 15, 2001.)*	The vending sites will be established in all future agreements and the procedures for addition, deletion and modification will be strictly adhered to. *(From MDAD's response, dated August 9, 2001, to the OIG draft report.)*	Exhibit A of the new Agreement establishes the vending sites for the 37 machines. Additions, Deletions and Relocations are addressed in Article 1.05 of the new Agreement.

OIG Finding & Recommendations	MDAD Response	OIG Comments New Contract Provisions, Etc.
4. Due to the misleading nature of the record keeping for the phone card permits, the MDAD should engage in an audit of the books and records of the three firms. *(From the OIG's draft report, dated August 2, 2001 and reiterated in the final report dated August 15, 2001.)*	As a matter of procedure, and within the Terms and Conditions of the existing Permit document, the year-end audit will continue to be performed. The firms have submitted annual audits to the Department in accordance with the requirements of the Permit. *(From MDAD's response, dated August 9, 2001, to the OIG draft report.)*	Discussed at length in the instant memorandum. See also OIG memorandum on page 5, where the two additional audit certifications are discussed. Footnote 5 and 6 lay out the language required in the new certifications.
5. MDAD should require that current phone card and ATM vending machines be equipped with an activity register, which would monitor the amount of services rendered by each machine. The vendors should be required, upon request by the appropriate County staff, to allow inspection and production of these records in accord with other accounting procedures contained in the contract's general covenants. It is advised that the new competitive bid for phone card/ATM services include these provisions. *(From the OIG's draft report, dated August 2, 2001 and reiterated in the final report dated August 15, 2001.)* 59	The language requiring activity monitors and access to information has been incorporated into the new agreement. The covenants of the existing permit agreement will be strictly enforced. *(From MDAD's response, dated August 9, 2001, to the OIG draft report.)*	Article 3.14 Additional Reports of the proposed agreement, which states in part: "The Successful Bidder will be required to provide electronic records of all transactions by location, by machine, for accounting and auditing purposes. The Prepaid Phone Card Vending Machines must generate printed revenue reports as requested by the Department. The manufacturer of the vending machines must provide a certificate verifying that the revenue mechanism creating the reports is tamperproof. Any evidence of tampering may lead to termination of the Agreement. . . . A copy of the transaction report or similar information will need to be submitted with the concessionaires' monthly payment for verification.
6. MDAD … must ensure that the appropriate vending decals licenses are affixed to each of the vending machines and that the number of vending machines on the premises at MIA, and the vendor's corresponding decal numbers match, with the number purported by the vendor in its occupational license declaration. *(From the OIG final report, dated August 15, 2001.)*	No direct response provided.	No known action taken by the Department after the publication of the OIG's Final Report of August 15, 2001. This issue was subsequently readdressed by the OIG in its supplemental report, dated January 28, 2002. See number 10 of this schedule.

SCHEDULE A
OIG FINDINGS AND RECOMMENDATIONS

OIG Finding & Recommendations	MDAD Response	OIG Comments New Contract Provisions, Etc.
7. Should the Tax Collector and MDAD find machines without the appropriate decals, MDAD, as the "owner" of the business premises, is obliged to secure the licenses itself (cost of decals/licenses should be charged to the vendor) [Section 8A-221(2)(b)] or the County shall post "Notices of Delinquent Taxes" as required under Section 8A-221(5). *(From the OIG final report, dated August 15, 2001.)*	No direct response provided.	No known action taken by the Department after the publication of the OIG's Final Report of August 15, 2001. This issue was subsequently readdressed by the OIG in its supplemental report, dated January 28, 2002. See number 10 of this schedule.
8. The OIG reiterates its previously stated recommendation, which suggests that the Department conduct an audit of the three vending companies. The OIG recommends that the Department invoke its right to audit clause of the general covenants as opposed to relying on the self-reporting annual audits submitted by the vendors. *(From the OIG final report, dated August 15, 2001.)*	No direct response provided.	See Comment to recommendation number 4.
9. According to MDAD management, it has not been a past practice of MDAD to require vendors to obtain approval prior to bringing the phonecard devices onto Airport premises. This means that no MDAD staff member has acknowledged the existence of the added devices. Given the significant security concerns involving airports, or for that matter, any public building, it is extremely important for the appropriate personnel to not only authorize devices that are affixed in public areas, but also to know of the location of such devices. As such, a policy should be established that requires all devices to have an additional MDAD decal affixed to the device. This would insure that MDAD staff keeps a record of all devices and that appropriate security measures are adhered to with respect to placing the individual devices within the terminal. *(From the OIG's Supplemental Report, dated January 28, 2002.)*	The Department is implementing a decal identification program for all Terminal machines. When decals are issued, an updated site map will be used as the baseline for all future adds, moves and changes. *(From MDAD's February 14, 2002 response.)* Update: Numbered Aviation Department identification decals will be installed on all machines and a complete inventory of machines and their occupational license decals will be conducted. Under the new contract, replacement or movement of machines from assigned locations must be approved in writing by the Department. *(From MDAD's July 18, 2002 response.)*	The new contract includes an Exhibit D Standards of Operation, which contains a provision addressing this issue. "(3) The Department will require the Concessionaire to affix MDAD provided decals to each phone card vending machines located in Department approved locations. Inventory will be taken at least yearly." Exhibit A of the new Agreement establishes the vending sites for the 37 machines. Additions, Deletions and Relocations are addressed in Article 1.05 of the new Agreement.

60

	OIG Finding & Recommendations	MDAD Response	OIG Comments New Contract Provisions, Etc.
10.	None of the eighty (80) prepaid phonecard vending devices have the appropriate 2001-2002 vending license decals. Twenty-two (22) of the eighty (80) devices have no decal at all. Each of the six (6) portable ATM combo machines also lacks the appropriate 2001-2002 vending decals. This means that twenty-eight (28) of the vending devices at no point have been registered with the Occupational License Division of the Miami-Dade County Tax Collector. *(From the OIG's Supplemental Report, dated January 28, 2002.)*	Vendors were notified that all machines must display evidence of registration with the appropriate State and County agencies. Inspection for these registrations will be added to the regular inventory checklist, and failure to comply will result in Permit termination. *(From MDAD's response dated February 14, 2002.)* Each operator has provided evidence of County vending licenses for each machine and copies of the requisite decals are on file with the Department. Each of the three vendors has obtained and supplied proof of County and, where applicable, City vending licenses. *(From MDAD's response dated July 18, 2002.)*	See Article 14.03 Permits and Licenses: The Concessionaire shall obtain, pay for, and maintain on a current basis all permits and licenses as required for its operations hereunder.
11.	The OIG observed that not all of the vendors were registered with the Florida Public Service Commission. *(From the OIG's Supplemental Report, dated January 28, 2002.)*	The Public Service Commission does not require registration from resellers of prepaid phone cards who do not provide long distance service. As none of the vendors provides long-distance service, all are exempt. *(From MDAD's response, dated July 18, 2002.)*	No comment
12.	Many of the prepaid phonecard devices have storage capacity. There are some models that are empty at the base. It is these models that have the capacity to store any type of object. There should be a thorough, periodic inspection conducted of all devices to insure compliance with heightened safety and security measures that apply to the terminal building and concourses. *(OIG's Supplemental Report, dated January 28, 2002.)*	In addition to active and passive security measures already in force, vendors have covered or filled all machine openings and cavities and certified their compliance to the Aviation Department in writing. Inspection for compliance will be added to the regular inventory checklist. *(From MDAD's response, dated July 18, 2002t.)*	The new contract includes an Exhibit C Minimum Features and Standards, which contains a provision addressing this issue. "(12) Phone card vending machines must not have any cavaties or openings in which to conceal explosives or any other type of potentially damaging material."
13.	There were two unplugged devices noticed during the December 2001 inventory. These unplugged devices serve no useful purpose, clutter the terminal and concourses. *(OIG's Supplemental Report, dated January 28, 2002.)*	Functioning machines are sometimes unplugged during cleaning by janitorial staff. This was apparently the case with the two observed by the OIG. *(From MDAD's response, dated February 14, 2002.)*	No comment

61

SCHEDULE A
OIG FINDINGS AND RECOMMENDATIONS

OIG Finding & Recommendations	MDAD Response	OIG Comments New Contract Provisions, Etc.
14. The OIG has reviewed a number of complaints made by passengers with regard to the prepaid phone card devices. The complaints range from no phone card dispensed (the machine ate the money) to the cards not working. Some consumers also complained that the 800-numbers provided little or no help at all in obtaining a refund. These are significant quality of service matters that MDAD management should also specifically address. *(See OIG's Supplemental Report, dated January 28, 2002.)*	Although a complaint procedure has been in force for the duration of the permits, the Department is considering additional measures to enhance service. The Department is considering referring complaints to the Consumer Services Department, although arrangements are still incomplete. *(From MDAD's response, dated July 18, 2002, to the OIG's Supplemental Report.)*	The new contract includes an Exhibit D Standards of Operation, which contains a provision addressing this issue. "(16) Concessionaire must contract with current on-site vendor or vendors, so as to provide immediate refunds to customers. Location of refund must be clearly posted on each machine."

62

ATTACHMENT II

August 23, 2004

WTN, INC.

COMPLETE TELECOMMUNICATION SERVICE

Miami Dade County, Florida
Audit and Management Services Department
175 N. W. 1st Avenue, Suite 2900
Miami, FL 33128
Att: Cathy Jackson

Via Fax: 305-349-6190

Re: Comments on PrePaid Phone Card Audit Report

Dear Ms. Jackson:

Thank you for the opportunity to comment on your findings of your audit report for prepaid phone card vending at Miami International Airport.

According to your statements, the purpose and scope of the audit was to review and assess compliance with applicable provisions of the prepaid phone card vending permit, verify accuracy of revenues reported and percentage fees paid to MIA and evaluate the financial condition of the permit holders pertinent to the pending award of prepaid phone card vending machines agreement ITB MDAD0003 for the present permit holders, Communitel, Inc. Latin American Enterprises, Inc and WTN, Inc.

To achieve your audit objective, we feel there were statements that were not correct or were eliminated as per the following:

1) Latin American Enterprises did not comply with furnishing their income tax returns for the past three years through fiscal year 2002 as per your request. They only submitted information for 9 months. And, the tax returns that were filed were under a company called Ursus Telecom Corporation who were not permit holders to furnish prepaid phone cards at MIA.

2) Communitel installed 6 ATM's and only removed 6 prepaid card vending machines, not 12. Their permit states that they were authorized to install 5 ATMs and remove 10 prepaid phone card machines. They did not do this therefore they are not in compliance with their permit.

3) It should also be stated in the Financial Analysis that WTN being the highest bidder expressed reservations about the bid price and decided not to execute the contract due to the fact that the playing field was changed during the bid process allowing the discounted yellow payphones to be installed on all payphones thereby decreasing the prepaid phone card revenue by approximately 30%.

87-14 116TH STREET
RICHMOND HILL NY 11418
TEL (718) 849-6000
FAX (718) 849-5710

WTN, INC.

3 Continued:

Datewave whose minority partner Kellee Communications is in fact the same company presently subcontracting the payphones from AT&T. Datawave is the only company that knew upfront during the bid process that the playing field was being changed in allowing the discounted long distance services to be available on all the payphones. This is verified by Datawave's bid amount, which was the lowest amount offered. To now suggest that they possibly be awarded the contract is absurd.

Mr. Baker, Ms. Angela Gittens' Assistant, has told me that the discounted payphones are here to stay at MIA. As long as MIA has changed the cost of its telecommunications product, if you are going to make a suggestion to the County Manager, the only fair alternative is to re-bid the contract with the accurate information pertaining to the potential business at Miami International Airport. All the companies involved will be aware of the discounted payphones and can bid accordingly.

Thank you for allowing WTN to participate with comments in these findings. Hope to hear from you with the final outcome.

Very truly yours,

Edward J. Meegan

Edward J. Meegan
President

EJM/am

ATTACHMENT III

communitel

"Connecting the World One Community at a Time"

August 23, 2004

VIA HAND DELIVERY

Ms. Cathy Jackson, Director
Audit and Management Services Department
175 NW 1st Ave.
Suite 2900
Miami, FL 33128

RE: Audit Report - Prepaid Phone Card Vending at Miami International Airport

Dear Ms. Jackson:

Thank you for allowing us an opportunity to review and comment on your August 10, 2004 draft report to the County Manager on your audit of Communitel and the other prepaid phone card vendors at Miami International Airport ("MIA").

Quite frankly, given the purpose of the audit, as you yourself define it in the very first paragraph of the draft report, we are surprised by the recommendation that appears on page 5 that, if the Aviation Department ("the Department") concurs with your conclusion that the top three bids are "unrealistic, then the top three should be eliminated and merits of bids submitted by the fourth- and fifth-ranked companies considered, otherwise, all bids should be rejected." With all due respect, this recommendation exceeds the limited scope of what you were requested to do. According to the first paragraph of the draft report, your purpose in conducting the audit was to: (1) "assess compliance with applicable provisions of the Prepaid Phone Card Vending Permit (the Permit);" (2) "verify accuracy of revenues reported and percentage fees paid to ... the Department;" and (3) evaluate the financial condition of permit holders, pertinent to the pending award of Prepaid Phone Card Vending Machine Agreement ITB MDAD0003."

Moreover, your conclusion that the Minimum Annual Guarantee ("MAG") bids of the current vendors are "unrealistic" is based upon the faulty assumption that, in order to meet the $1.08 million MAG, the current vendors would be required to generate "annual gross sales of $4.3 million ***assuming a 25% percentage fee rate***." See Draft Report at page 5, first paragraph. (Emphasis added). This same 25% assumption is reflected in Table IV, on page 5. The assumption that any vendor must generate *four times* the MAG in order for the MAG to be considered "realistic" is totally unfounded. There is certainly no such requirement in the ITB.

The amount of revenues that a vendor needs to generate in excess of the MAG is a factor

6955 N.W. 77 Ave. • Suite 204 • Miami, Florida 33166 • Phone: (305) 888-4212 • Fax: (305) 883-6701 • 1-800-938-4146
www.communitelusa.com

of a vendor's expenses, and the percentage of profit that the vendor is seeking to make, and will vary from vendor to vendor. It is clear from the financial information attached to your draft report that Communitel has considerably more non-MIA business than the other two vendors. While Communitels' gross profit on a consolidated basis is only 12%, its gross profit for the sale of prepaid phone cards at MIA is approximately 70%. Your statement that "permittees are struggling to timely remit monthly MAG payments" does not apply to Communitel. On the contrary, Communitel has a far more diversified source of revenues than the other two vendors, which enhances Communitel's ability to continue to expand and improve its financial performance independent of its operations at MIA

Communitel respectfully submits that your conclusion that "permitees cannot absorb ***percentage fees*** proposed without increased revenues" is also wrong. See Draft Report at page 5, first paragraph. (Emphasis added). Once again you have made the faulty assumption that the new contract requires vendors to pay the Department a percentage of Gross Revenues collected, when in fact it does not. Although the current fee arrangement requires the vendors to pay 25% of Gross Revenues, those are ***not*** the terms of the new permit. The ITB for the new permit requires the successful bidder to pay the Department the MAG, in 12 equal monthly installments. The percentage of Gross Revenues becomes relevant only if the vendor's Gross Revenues exceed the MAG. See ITB at page IB-16. It is worth noting here that, since the 25% fee went into effect in April 2003, neither Latin American Enterprises ("LAE") nor WTN has reported Gross Revenues in excess of the MAG. Communitel's Gross Revenues exceeded the MAG requirement 6 out of the last 15 months; less than half the time. See Schedule II at page 1.

The attached document labelled "Exhibit A" illustrates how Communitel can meet its obligations to pay the MAG, and still make a profit.

In view of the foregoing, Communitel strongly urges you to eliminate both of the paragraphs and Table IV on page 5.

Communitel also disputes the numbers in Table II on page 3, which claim that Communitel was late 6 times in 2004 and 6 times in 2003 paying the MAG. At least as to Communitel, the number of times that the MAG was paid late appears to be based upon the assumption that a MAG payment was late if it was not received on the first of the month. As we have previously discussed with you, under the express terms of the Permit, although the payment is due on the first of the month, the MAG is not considered late and no late fee is owed if the MAG is paid by the tenth of the month. See Permit, paragraphs C(1)&(2). Under this plain reading of the Permit, Communitel has not been late in its payment of the MAG.

Our next concern with your draft report is the reference in the first paragraph on page 4 to Communitel's contract for the baggage checkroom concession. Like your recommendation regarding what the Department's response should be to the MAG bid by the current vendors, the inclusion of this information about a totally separate contract is beyond the scope of your assignment. Your stated purpose, including with respect to evaluating the financial condition of permit holders, was limited to considerations "pertinent to the pending award of Prepaid Phone Card Vending Machine Agreement ITB MDAD0003." See Draft Report at page 1.

You will recall that our July 16, 2004 letter to you explained the facts surrounding the baggage checkroom contract, and that we also provided you with a copy of our March 2004 letter to Aviation Director Angela Gittens, which included a historical summary of the delays in the Department's execution of the baggage checkroom contract, which resulted in Communitel not being able to open the baggage checkrooms as early as originally anticipated. Given its peculiar circumstances, the baggage checkroom concession is not "pertinent" to the prepaid phone card contract. It is unfair to Communitel to include information about the baggage checkroom concession in your report regarding the prepaid phone cards without an explanation of the circumstances that are unique to that concession, and we would respectfully request that this information be deleted.

Also, please note that the Department has advised us that, as of August 20, 2004, the outstanding balance under the baggage checkroom contract is approximately $37,000, not $55,268 as stated in your draft report. In accordance with Ms. Gittens' July 28, 2004 letter to us, the Department has approved a six-month payment plan, which allows Communitel to pay the MAG on the baggage checkroom contract at the rate of $8,901.35 per month, effective August 1, 2004. A copy of Ms. Gittens' July 28, 2004 letter is attached.

With respect to the discussion on page 6 under "Equipment Inventory," it should be noted that Communitel had verbal permission from the Department to relocate specific machines, although that approval was not confirmed in writing. As for the issue of insurance, the Department's Risk Management Division will confirm that it has in fact now received Communitel's revised certificate of insurance.

With respect to the information presented regarding the other vendors, your draft report does not address the significance of the lack of financial information that was made available by LAE. Communitel and WTN both produced three full years of financial data, whereas LAE produced only nine months of data. An evaluation of a company's financial condition can hardly be made based upon only nine months of data. The lack of available financial data on LAE should be of particular concern given that LAE lost $314,998 during the nine-month period for which it did provide information, and especially given that LAE is consistently behind in its payment of the MAG.

While your report focuses solely on the vendors' gross profits, the issue that should be of paramount concern to the County is net income and net worth. Far more important than gross profits are the capitalization (or lack thereof) of the vendors, and whether or not the vendors are going concerns. The following numbers gleaned from the financial data of the vendors attached to your draft report demonstrate that Communitel not only has paid the most to the County, but also is the strongest vendor financially and, therefore, presents the best option for the County:

	Communitel (12/31/02)	LAE (12/31/02)	WTN (03/31/03)
NET WORTH	$800,000	-$942,820	$88,022
NET INCOME	$226,466	-$314,998	$ 4,834

While the draft report notes on page 2 that both LAE and WTN supply prepaid phone cards to the pharmacies and newsstands at MIA, the report does not note that the County does not receive a percentage of these sales, as it does with the prepaid phone cards that LAE and WTN sell through vending machines. The Manager should be made aware of this fact.

We also question the statement on the first page of your draft report, in the fourth bullet, that you verified the accuracy of bank deposits by checking "vending machine tapes/cash collections and monthly revenue reports." We are familiar with the machines that LAE uses. Unlike the machines that Communitel and WTN use, the machines that LAE uses do not produce tapes. If you are depending upon the hand written notations of LAE as to the revenues collected, rather than tapes generated by the machines, obviously that methodology leaves room for under reporting revenues, which we think should be noted in your report.

Your report confirms that, of the current prepaid phone card vendors, Communitel has consistently paid the highest revenues to the County. As always, we believe that the County and the passengers of MIA will be best served by Communitel continuing as their prepaid phone card vendor.

Thank you for your favorable consideration.

Sincerely,

Pedro R. Pelaez
President

cc: Mr. George Burgess
County Manager

Miami Dade County Clerk of the Board

HERNANDEZ & TACORONTE, P.A.
Certified Public Accountants

"Exhibit A"

August 21, 2004

Pedro Pelaez
President
Communitel , Inc.
6955 N.W. 77th Avenue Suite 204-207
Miami, Florida 33166

Reference: Response to Audit Report – Prepaid Phone Card Vending at MIA

Dear Mr. Pelaez:

You ask me to give you an opinion regarding the financial analysis portion of the draft audit report issued by the Audit and Management Service Department of Miami-Dade County dated August 10,2004. We have read the report and financial data and concluded that the conclusion arrived by the auditors was not in line with what we figured on this venture. Per Exhibit A (See Attached) we estimate that Communitel can pay the MAG without a problem due to the following factors.

1. Superior Product – Communitel only sells AT&T prepaid phone cards, the best known brand in the telecommunication industry.
2. The Only Vendor at MIA – Communitel will have a captive market being the only one selling prepaid phone cards from dispensing machines.
3. Positioning of Machines – Communitel will be able to place the machines on heavy passenger traffic areas.

Communitel has met it responsibilities by selling more prepaid phone cards at MIA which has allowed the Company to meet its commitments responsibly for almost ten years. Therefore, the auditors has to look at the gross profits from the MIA operation not Company wide.

The other competitors of Communitel do not sell the same type of product and therefore that could have affected the analysis made by the auditors. In fact LAE only reported nine moths of financials and had a huge loss which tell us that they could be in trouble if they do not meet their proposed anticipated sales and meet their commitment to MIA.

If you have any questions do not hesitate to contact us.

Sincerely,

Bernardo C. Tacoronte CPA
Hernandez & Tacoronte P.A.

8500 West Flagler Street · Suite B-208 · Miami, Florida 33144
Tel: (305) 225-8646 · Fax: (305) 226-2446

"Exhibit A" (Cont.)

Exhibit A

Communitel , Inc.
Analysis and Projection of MIA
Telephone Calling Cards

Estimated weekly sales per machine	$	1,000	
Machines allow per new Proposed award		37	
Estimated Total Weekly Sales		37,000	(a)
Estimated Yearly Revenue (As per new Pending Award)		1,924,000	(b) = [(a) * 52 weeks]
Estimated Cost of Sales (30% as per current deal with AT&T)		(577,200)	(c) = [(b) * 30%]
Proposed MAG Payment MIA		(1,080,009)	
Gross Profit to Communitel	$	266,791	

MIA
MIAMI INTERNATIONAL AIRPORT

July 28, 2004

Mr. Pedro Pelaez
President
Communitel
6955 NW 77Ave., Suite # 204
Miami, Florida 33166

Re: NON-EXCLUSIVE BAGGAGE CHECKROOM SERVICES AT MIAMI INTERNATIONAL AIRPORT AGREEMENT - Agreement No. 002213

Dear Mr. Pelaez:

This is to acknowledge receipt of your letters addressed to my attention dated May 3 and May 10, 2004 regarding the Minimum Annual Guarantee and the outstanding balance.

It is my understanding that the Staff has met with you on numerous occasions to discuss these issues and others pertaining to the baggage checkroom operation.

The Department has found no basis to consider a six months' relief of the minimum annual guarantee; it is my understanding that you currently have a past due obligation of $53,408.10, which amount covers the minimum monthly guarantee for the remainder of February 2004 until July 2004 inclusive.

In an effort to resolve this matter, the Department is approving a payment plan of six (6) monthly installments of $8.901.35 plus applicable taxes beginning August 1, 2004 and every month thereafter.

Please contact Dr. Patricia A. Ryan at 305.876.8131, if you need additional information.

Sincerely,

Angela Gittens
Aviation Director

Cc: Susan Warner Dooley, Assistant Aviation Director for Business Management
Patricia A. Ryan, Commercial Operations
Rick Cybulski, Credit and Collection
Richard Anyamele, Finance

OFFICE OF THE DIRECTOR ♦ MIAMI-DADE AVIATION DEPARTMENT
P.O. BOX 592075 AMF ♦ MIAMI, FLORIDA 33159
PHONE: 305.876.7077 ♦ FAX: 305.876.0948
www.miami-airport.com

MIAMI-DADE

July 16, 2004

Mrs. Cathy Jackson
Audit Director
Audit and Management Services Department
175 NW 1st Ave.
Suite 2900
Miami, FL 33128

RE: PREPAID PHONE CARDS VENDING PERMIT/AUDIT FINDINGS AND RECOMMENDATION

Dear Ms. Jackson:

Thank you for the time that you and your staff took recently to meet with Communitel to discuss your preliminary audit findings regarding its Prepaid Phone Card Permit at Miami International Airport (MIA). We are gratified that your audit has confirmed that Communitel – which has consistently produced the highest revenue to the County of the three prepaid phone card vendors – is current in its payments, and is in substantial compliance with the Permit requirements.

In response to the audit findings dated June 29, 2004, there are, however, a few points that I would like to address.

FINDING:

Communitel has an outstanding balance due to MDAD in the amount of $59,433.

COMMUNITEL RESPONSE:

Communitel is in fact current on its payments under the Prepaid Phone Card Permit. The obligations for which it has an outstanding balance with MDAD relate to the Baggage Checkroom contract that it was awarded at the end of last year. Communitel and MDAD have reached an agreement for Communitel to pay the outstanding balance (Minimum Annual Guarantee) due under the Baggage Checkroom Concession Agreement in 12 monthly installments of $2,404.11 each, and has been consistently meeting its obligations under that agreement. (Please refer to attached letter dated April 30, 2004 to Angela Gittens).

Communitel's request to pay the Minimum Annual Guarantee (MAG) on an installment basis was due to various factors. First, MDAD did not provide the contract to Communitel until December 18, 2003, although it was "approved and executed" on November 17th.
The County's delay in delivering an executed contract to Communitel prevented Communitel from being able to meet certain thresholds of the Baggage Checkroom contract, and required Communitel to postpone the opening of the Checkrooms to the public. Nevertheless, MDAD sought to enforce the MAG based on the original terms of the contract, without any regard to the delay that MDAD itself caused in the starting of our operations.

We provided firm evidence and documentation to Angela Gittens, Aviation Director of MDAD, that the delays caused by MDAD on the delivery of the contract had a direct impact on Communitel's ability to start the operation, and thus payment of the MAG. After reviewing the situation, Ms. Gittens agreed that Communitel should not have been charged the MAG from the original date provided in the contract.

In addition to the County's delay in providing an executed copy of the contract, we have met with MDAD officials (Patricia Ryan and Sarah Abate) to discuss the weak revenues generated from the Baggage Checkrooms. Based on the historical figures provided by MDAD in the original Bid documents, we bid to pay MDAD $70 per square foot.

Unfortunately, the historical figures provided to the bidders do not reflect the reality of today's market. The Baggage Checkrooms (located in Concourses E and G) are not generating anywhere near the estimated revenues to meet the operating expenses and MAG. The Baggage Checkrooms must generate approximately $61K per month to meet the financial obligations. However, the Baggage Checkrooms are currently generating in Concourse E only $48K and in Concourse G a mere $5K per month, which translates into a negative cash flow, and significant losses for Communitel.

We are, nevertheless, actively taking steps to increase revenues and reduce operating expenses. In the interim, we are working closely with MDAD to address the foregoing. (Attached letters to MCAD)

FINDING:

Communitel has submitted payments late.

COMMUNITEL RESPONSE:

Based upon our discussion with you and your staff, it is our understanding that this finding is based upon an interpretation that the MAG due under the Prepaid Phone Card Permit must be made on the first of each month, and that there is no grace period. However, Section 3.07 of the Permit does in fact provide a ten day grace period, and does not distinguish between the due date for the MAG and the due date for the percentage of revenues that are to be paid above the MAG. Taking this fact into consideration, Communitel does not have a history of late payments, because it makes its payments, including the MAG, by the tenth day of the month. (Attached section 3.07 in Annex # 7)

FINDING

Required Insurance is required.

As we discussed, Communitel has included insurance coverage for the Prepaid Phone Card Permit under the insurance that is in effect for the Baggage Checkroom contract.

FINDING:

Machines without MDAD Identification Numbers.

COMMUNITEL RESPONSE:

The machines *have the Communitel Identification Numbers*. We have never been advised that the machines must contain the MDAD identification numbers. We are willing and able to attach the MDAD identification numbers as soon as MDAD provides the same to Communitel. (Please, see Annex #8).

FINDING:

Machines with no license decal or expired.

COMMUNITEL RESPONSE:

It has been our practice that each machine be identified with the correct and active license and decal. However, it is important to note that any item that is attached to the machine (with adhesive) may be removed by passengers, primarily children playing, or come off due to wear and tear. We have audited all of our machines and confirmed that all the machines have the proper decals and licenses attached thereto, except the machine that was in the Customs in-transit lounge that was not accessible to the public. (Please, see Annex #10).

74

FINDING:

Relocated Machines.

COMMUNITEL RESPONSE:

Communitel has never moved any machines without the prior consent of MDAD. At least one person from MDAD has been present when a machine was moved, because MDAD told Communitel exactly where to relocate the machine. For example, our machine in the in-transit lounge was not moved for months, although we requested that it be moved. This machine sat idle without producing any revenues. It was recently moved with MDAD's approval. Communitel does, however, acknowledge that even though it had MDAD's prior verbal consent to move any machines that it relocated, it needs to confirm that verbal consent in writing.

It is important to note that due to the CIP Program, many machines were moved by MDAD – not Communitel. In addition, machines are sometimes moved by the cleaning crew of MDAD and by others, including our competitor, Latin America. This was conveyed to MDAD authorities by both Communitel and WTN. Finally, we conducted an audit of our machines in March 2004 and provided a Certified Copy to MDAD of our machine locations. Similarly, we conducted a separate audit of all of the machines (for all prepaid phone card vendors) and provided this information to MDAD. (See attached audits prepared by Communitel in Annex #9 and #11).

We hope that this information helps to clarify your findings. We continue to strive to provide excellent customer service to the traveling public at MIA and to comply with the payment and other requirements of the Prepaid Phone Card Permit. We look forward to continuing that service.

Sincerely,

Pedro R. Pelaez
President

Enclosures

P.S. We are also attaching the last two months of revenues from Baggage Room "E" and "G" to show you that the Revenue Projections don't reflect the expected sales numbers. (Please, see Annex #4 and #5).

75